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AGRICULTURAL TRADE LEGISLATION

HEARING

BEFORE THE

SUBCOMMITTEE ON
FOREIGN AGRICULTURAL POLICY

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

S. 2005

A BILL To expand markets for United States agricultural products through increased targeting of Commodity Credit Corporation export funds, expanded exports of Commodity Credit Corporation dairy products, and expanded authority for the use of Commodity Credit Corporation stocks to facilitate export sales, to emphasize the need for increased exports of processed and protein fortified agricultural products, and for other purposes. (Agricultural Export Trade Equity Act of 1983.)

AND

S. 2304

A BILL To enhance U.S. food aid, restore the competitive position of the United States in agricultural export markets, and for other purposes. (Food Aid and Export Market Promotion Act.)

FEBRUARY 23, 1984

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AGRICULTURAL TRADE LEGISLATION

THURSDAY, FEBRUARY 23, 1984

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:13 a.m., in room 328-A, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Wilson, Jepsen, Helms, and Zorinsky.

Also present: Senator Melcher.

STATEMENT OF HON. ROGER W. JEPSEN, A U.S. SENATOR FROM IOWA

Senator JEPSEN. The subcommittee will come to order.

I welcome all of you here this morning and I commend the chairman, for whom I am substituting temporarily, for his initiative in calling these hearings.

As destabilizing, unpredictable, and unfair as it is, agriculture's future lies in the international marketplace. Internationalization of U.S. agriculture over the last 20 years has put us beyond the point of no return.

One-half of all the cash income from crops comes from export sales, and gearing agriculture down to a domestic-only supply level, as some would have us do, would have disastrous consequences, for it will not be the large agrifactories or the hobby farms that will be forced out of business, but it is going to be the full-time, average family farms—economically, the most vulnerable—and those are typical of the farms, certainly, of the chairman of this subcommittee in Minnesota and mine in Iowa, and many others in the Midwest.

Certainly, we must not yield by default our biggest and perhaps this Nation's most international competitive advantage. This recognition says a great deal about the future farm policy. Massive and costly unilateral supply controls, mandatory or otherwise, will become increasingly counterproductive as our export competitors demonstrate that they are more than anxious and capable of replacing us in the world marketplace.

This past year, while the United States was reducing its grain production by 90 million metric tons, the rest of the world increased its grain output by 80 million metric tons. And if the administration intends pursuing its more market-oriented farm policy, it has the obligation, in my judgment, to implement pro-

grams which will better equip farmers to compete effectively in world markets.

To cut farmers loose to do battle with the treasuries of the European Economic Community and the Canadian and Australian Wheat Boards is nothing short of economic suicide. Chairman Helms put his finger on the problem when he observed that our farmers must be able to export in order to turn a profit.

Congress and this administration must provide the tools to expand farm exports, and for this reason I was pleased to add my name to the legislation introduced by my distinguished colleague, Senator Boschwitz, the chairman of this subcommittee. That legislation would expand agricultural exports through existing credit and food aid programs. This is one approach to responding to the $64,000 question of how do we go about reflecting the efficiency of the American farmer in the world agricultural markets so as to secure our comparative advantage in food production.

Put more fundamentally, to improve farm income, all we need to do is sell more at a higher price, to untie the Gordian knot of farm economics, and this is not an impossible task.

Methods to increase the effective purchasing power of foreign buyers is worth pursuing, and Senator Boschwitz' Food Aid and Export Market Promotion Act begins this process.

Our first witness this morning is the Honorable Richard E. Lyng, Deputy Secretary, U.S. Department of Agriculture, a man who has distinguished himself both in private and public service.

At this time, I would invite Mr. Lyng to take the witness chair. Welcome, Mr. Secretary. We look forward to your remarks.

STATEMENT OF RICHARD E. LYNG, DEPUTY SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY LEO V. MAYER, ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE; AND MARY CHAMBLISS, DIVISION DIRECTOR, PROGRAM ANALYSIS DIVISION OF EXPORT CREDITS, FOREIGN AGRICULTURAL SERVICE

Mr. LYNG. Thank you, Mr. Chairman. It is a pleasure to be here. I appreciate the chance to discuss agricultural trade with you and the committee this morning. With me, I have Leo Mayer, who is the Associate Administrator of the Foreign Agricultural Service, and Mary Chambliss, who directs our Public Law 480 program at the Department of Agriculture.

The administration and this committee have a common interest and a shared concern in the course of U.S. agricultural exports which, over the past 10 or 15 years, have, as you have stated, become crucial to farm prosperity.

As we all know, that course has been difficult in the recent past, with exports down in both volume and value from the high reached in fiscal year 1981. The agricultural community, the Congress, and the administration—all of us—have been looking for the key to get the export ball rolling again.

The goal for most people seems to be a return of the 1970's, when our export volume nearly tripled, value went up almost sixfold, and American farmers were planting fence row to fence row to meet export demand.

So, any discussion of strategies for recapturing export abundance should start with a brief assessment of the 1970's and how that experience might relate to the challenges ahead. Any way you look at the 1970's, they were an unusual time. They were a boom time, a time of soaring oil prices, a weak dollar, major global crop shortfalls, and expanding economies worldwide.

And all of these factors added up to good times for U.S. agricultural exports. While most of us viewed the rising prices for oil with concern, the high oil prices put billions of dollars into the hands of OPEC countries which they spent to import food and to help developing countries to import more food, too.

The dollar was weak, so imported cars, shoes, and TV sets cost U.S. consumers more, but the same weak dollar enabled foreign customers to buy U.S. farm products for less money.

Drought brought crop shortfalls in major producing countries, but U.S. production continued high, filling food gaps with increased exports. The Soviet Union, with crop shortages and more valuable gold, came to the world market in a major way for the first time, and by the end of the decade it was relying on the United States for 70 percent of its grain import requirements.

Economies in most countries were expanding; inflation was rising. Japan, Western Europe, and the Eastern bloc nations became large importers of U.S. farm products. The good times were rolling right into the 1980's. Then the demand for oil dropped dramatically. OPEC countries tightened their belts; some were forced to borrow money.

The dollar strengthened to historic highs, sharply boosting the price of U.S. farm products to foreign buyers. The Soviet grain embargo sharply reduced our sales to that market, and sales to Japan and Western Europe, while still large, leveled off.

The European Community, meanwhile, moved from a net importer to an exporter of major farm commodities, and became a strong competitor in the export market. Eastern Europe and the developing countries, our major growth markets, plagued by huge debts and high interest costs, reduced their buying.

The export ride was over. The world had entered a period of high unemployment and burdensome debt, and this occurred as the United States harvested record crops 2 years in a row, 1981 and 1982.

What happened then is not surprising. After 10 years of unprecedented growth to almost $44 billion in fiscal year 1981, U.S. farm exports hit the skids and dropped to $34.8 billion last fiscal year. Export value will turn up this year by perhaps $3 billion, but the increase will be due to higher export prices rather than any increase in export volume.

There is reason to believe that our export decline may have ended and our sales will be improving in the days ahead. The United States is in a strong recovery from the recession and we expect it will begin to lead the rest of the world toward normal growth, starting with Europe and followed in a year or two by the developing countries.

In short, the holding operation is over. We have done well during the economic storm to maintain exports at what are very respectable levels, except when measured against the exaggerated expecta-

tions fueled by the 1970's. Our forecast export value this year is five times greater than it was at the start of that decade, and export volume will be well over double.

Our strategy to build a stronger export trade in the new export climate is long term—there are no shortcuts—and it has five basic objectives.

One, we need to make sure that U.S. agriculture has access to foreign markets.

Two, trade practices, such as the use of export subsidies, import restrictions and other mechanisms, that subsidize inefficient farm production at the expense of U.S. producers must be eliminated.

Three, we must adopt domestic farm policies that permit U.S. producers to be competitive in the world market.

Four, we must help developing countries through the critical liquidity squeeze, and then do all that we can to help their economies expand.

Five, we must continue our vigorous efforts to convince our foreign customers that we are now and will continue to be reliable suppliers. President Reagan, by his action—the removal of the embargo—and by his words—his pledge on farm exports—has made it clear that this is our goal. But reliability comes only after years of reliable performance; we must achieve this.

Our policies and programs are directed at furthering these objectives. Our goal has been to use our resources, which are not unlimited, in a way that will make them most effective in countering short-term obstacles, while at the same time laying the groundwork for long-term export gain.

Our credit programs have proven to be the best tools to overcome weak demand and meet the competition in countries that are experiencing liquidity problems. Therefore, we have allocated more funds to credit guarantees under the GSM-102 program in the past 2 years than at any time in the history of market development—a total of almost $9 billion, which is two-fifths of total USDA funding for market development since 1954.

Guarantees under this program were allocated to provide for the financing of about 23 million tons of U.S. agricultural exports last fiscal year, and guarantees have been made available thus far this fiscal year to finance shipments totaling about 19 million tons.

The commodities financed ranged almost across the board from bulk grains to eggs to cattle embryos to protein isolates.

The longstanding GSM-102 program was augmented in October 1982 with blended credit, an innovative program using, in part, funds provided by the Helms amendment to the Omnibus Budget Reconciliation Act of 1982 specifically for export assistance.

The effort of the committee in obtaining approval of the $175 million appropriation that led to this program demonstrates the continued strong commitment to expand agricultural exports. We have used the program widely and, we believe, well as a temporary measure to compete with foreign export subsidies which we hope will be reduced or eliminated in the future.

Blended credit financing last year totaled just over $1 billion and was allocated to sell about 6 million tons of products to 16 countries as geographically separate as the Philippines and Portugal.

The leading customers under blended credit were Brazil, Egypt, Iraq, and Morocco, where we restored the United States as the leading source of wheat, a position lost to subsidized French wheat since the late 1970's.

This year, we are again using the blended credit program to compete with subsidized exports, particularly those from the European Community. Thus far, we have allocated $650 million in blended credit for this purpose—$92 million in direct credits to be blended with $558 million in credit guarantees.

These blended credits will be used by Morocco, Egypt, Algeria, and Tunisia to import U.S. wheat which, as you know, is in surplus and under heavy competitive pressure in export markets.

We have been pleased with the success of both the expanded export credit guarantee program and the blended credit program. However, more dollars for the program do not automatically mean sound export growth. The administration devoted considerable study to the issue this year before deciding that $4.2 billion was both a prudent maximum and one that could be used effectively to enhance exports.

Under existing law, we have successfully implemented overseas dairy donations, totaling almost 90,000 metric tons in 1983. This is under section 416. The issue of providing for sales of donated commodities as a way to help hard-pressed voluntary organizations do their work more effectively, raised by several members of this committee, is under review and we should have an administration recommendation within the next few weeks.

Our fiscal year 1984 title II program is for $650 million and we have requested a supplemental appropriation of $90 million for emergency food aid to Africa. This would bring the total for the current fiscal year to $740 million.

To help meet Africa's food needs this year, we have already programed a total of almost 487,000 tons of title II Public Law 480 food aid, with a value, including freight costs, of $202 million. This is an increase in tonnage of almost one-fourth above the amount programed last year. The $90 million supplemental would add another 245,000 metric tons.

In addition, we plan to donate at least 10,800 tons of dairy products under section 416 to Africa. The supplemental would provide additional emergency aid to be used in African countries with significant, chronic food deficits.

That concludes my prepared statement, Mr. Chairman. I would be happy to try to answer any questions you have.

Senator JEPSEN. Thank you for a very excellent statement, Mr. Secretary. In our balance of trade payments, agricultural exports play probably the single most important role in our balance of trade payments.

I think the blended credit has had excellent results and is one of these commonsense-type things. If we can promote this as you have, I commend and congratulate you for it. It has worked well and it is the type of thing that we hope we can continue to emphasize, as you do.

I have a question before we go into some of the specifics here. I want to explore those five points that you mentioned, especially three of them.

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How cooperative regarding agricultural exports are the various departments: The Secretary of State, the Secretary of Trade, and the Secretary of Commerce?

I know you were all together over in Brussels. I do not think there has ever been a time in the history of our country when we have had as much firepower, so to speak, from the Cabinet level in any one spot working for agriculture together, and I was pleased to see that.

Is that reflective of what is really going on? Do we finally have the State Department understanding that trade is the name of the game in agriculture, and we would like to sell our products and we would like to have them quit experimenting with the agricultural community unilaterally to implement foreign policy?

Mr. LYNG. Mr. Chairman, I speak as one who has been in and out of the Government now for over 15 years and been an observer of this in Washington most all of that time, and I do not think it has ever been as good as it is today.

I think that is true for two reasons. One, the Cabinet council form of Government instituted by President Reagan has actually worked. We meet in Cabinet councils many times each week. As I left this morning to come here, Secretary Block was going to a Cabinet council meeting at the White House. I will attend one there this afternoon.

We know these people better in these other departments of the Government.

The second reason, particularly, I think, is that Secretary Shultz and Secretary Baldrige and Ambassador Brock all are people who understand the value of trade and of agricultural trade.

I think we have to always understand that there can be some honest differences of emphasis or priorities; that sometimes a foreign policy goal may seem more important than a trade goal. We have some of that now, of course, but we seem able to reconcile those and focus attention on the importance of agricultural trade.

As you have pointed out, we have had the Secretary of State lead a delegation of five Cabinet officers to Brussels on three occasions in this administration. And while we have not achieved every goal we have had there, we have made some progress and I think we will make more.

Senator JEPSEN. We have to send the right signal to our trade partners that we are united and we are serious about this.

Mr. LYNG. I think that is right.

Senator JEPSEN. In the distribution of food, I noted that toward the end of your formal remarks here, you indicated a number of things we had set aside to give away and provide to Africa and other places.

Isn't part of the major problem of food distribution the storage and preservation of it while we are in the process of distribution?

Mr. LYNG. Yes. It is always hard for Americans to understand the lack of a so-called infrastructure in many of these countries to process, store, and transport—the whole distribution process. We do not fully understand that because it is so foreign to us, but it is a problem; no question about it.

Senator JEPSEN. For example, I see the television ads about Ethiopia and all the starving youngsters there, and it really tugs at a

person's heart to see that. In fact, I was so taken by it one Sunday that I came back and started to inquire about what are we doing for these hungry folks.

I found out that we have to battle the head of that government, their own people, to try to distribute food, which we have done, to those poor folks. They throw roadblocks in our way at every turn in the road. Their own government, their own people, their flesh and blood, so to speak, try to prevent us from helping the folks in their country who are starving. That is hard to understand.

Mr. LYNG. Yes.

Senator JEPSEN. I don't think many people realize, especially many of the critics of our food donation programs, some of the problems we continue to have daily in trying to help some of these folks around the world, especially those under Soviet influence.

Mr. LYNG. Yes; I think that is definitely one of the harsh realities that is hard for any of us to understand. I think we do penetrate those, but it is difficult.

Senator JEPSEN. That brings me full circle to looking at exporting; should we be looking at the processing of a lot of these feed grains, especially, and things that we export in agriculture? Would not trying to process them here help both in the preservation and the distribution, let alone jobs in this country? Are we doing that?

Mr. LYNG. Well, to some extent, we do. When you have a certain limited amount of funds, if the amount of funds is the limiting factor, you will remove less tonnage of agricultural commodities, which is also one of our goals, from the marketplace if you spend part of that money on processing.

So, over the years, we have had a tendency to not buy what are commonly termed value-added products in the same way that we bought the raw commodity products. There is no question about it, that in some things, processing them will help in the distribution at the recipient end, and I think there is more interest in that now than there has been in the past. We have been doing it.

But we have to understand that there are limits to the amount of funds, and to the extent that you do that, you do not have quite as much support from the producer side, the farmer side, as you do if you buy the raw product.

Senator JEPSEN. Your No. 3 item in the five basic objectives on page 3 of your comments—that is a major statement and I wondered if you wanted to comment on it further here: We must adopt domestic farm policies that permit U.S. producers to be competitive in the world market.

The statement stands by itself, but would you care at this point to elaborate on some of the ideas that the Department has?

Mr. LYNG. Well, in referring to having policies that would keep U.S. producers competitive, we have to recognize that our role in world production on some commodities particularly—many of the grains, wheat, the coarse grains, and others—if we establish a support price that is too high, several things happen.

One, we stimulate production elsewhere in the world because that becomes a floor; not only a support price for the United States but in a sense, because we set the market for the world with that price in many cases, it becomes a support price for worldwide pro-

duction. So we stimulate production elsewhere by having too high a support price.

When we take large quantities of land out of production, we open the door for our competitor countries to move into those markets, so that we have situations once in a while where we get a support price that actually turns out to be higher than the world market. We have been faced with that situation a good part of this last year or so on rice, where at least part of our rice production just cannot simply move in the world market where we need to sell it because our support levels are too high.

In the case of honey, we have a support level in the United States on honey that is so much higher than the world market that we are, in essence, storing our domestic production of honey under the Commodity Credit Corporation and we are eating imported honey.

This does not help in the long term. In the short term, this may provide a bounty for our producers, but in the long term it is the kind of a program that makes it impossible for our producers really to compete.

Senator JEPSEN. We are storing the honey that our producers make in this country against the support price and we are marketing and consuming honey imported at a lesser price from foreign countries?

Mr. LYNG. That is correct, Mr. Chairman. That is actually happening.

Senator JEPSEN. One last question. Senator Melcher and Senator Zorinsky have joined us and I want to yield to them here.

Mr. Secretary, you referred to the Helms amendment adopted by this committee which provided $175 million annually for farm exports. Can you tell me how much is going to be used for blended credit in 1984 and 1985, or what other uses could you make of the Helms amendment moneys?

Mr. LYNG. I could submit that precisely for the record, but it is roughly, I think, around $90 million that we have allocated thus far this year. All of the money that I referred to in the testimony as the direct loans would come from that amendment.

I think there is something like $80 million that has not yet been allocated in this fiscal year. Virtually all but perhaps $5 or $10 million dollars of that $175 million will be used for blended credit, I expect.

[The following material was subsequently received by the subcommittee:]

GSM-5 allocations by country as part of blended credit, fiscal year 1984

	Million
Algeria	$22.7
Egypt	9.2
Jamaica	.4
Morocco	34.6
Portugal	23.3
Total	92.2
Balance from $175 million	82.8

Senator JEPSEN. Thank you.

I see our chairman now has come in. We will move and the chairman will take his proper place here.

Senator BOSCHWITZ. That is perfectly all right, Senator. My apologies for being late. A breakfast was scheduled for me, at which I was a speaker and I just went on for a while, I am afraid. I thought that this began at 9:30; my mistake, and my apologies, Mr. Secretary.

Have you finished your——

Senator JEPSEN. We have moved along through the entire statement. I have had a number of questions and Senator Zorinsky and Senator Melcher have been here, and at your discretion, Mr. Chairman, they would be next eligible for questioning.

[Senator Boschwitz assumed the chair.]

Senator BOSCHWITZ. Senator Zorinsky?

Senator ZORINSKY. Dick, is there pretty much unanimity as to the fact that high degrees of subsidies are being used by our competitors worldwide?

Mr. LYNG. Oh, yes. I do not believe that there is any real disagreement. The facts are clear that in some commodities, with some sources, there are very clear subsidies. The European Community is the worst offender, with a policy of having high enough prices to encourage production of more than they can use domestically, at prices that are much higher than world prices, on such commodities as wheat, and poultry.

Senator ZORINSKY. Milled flour?

Mr. LYNG. Well, surpluses of dairy products; almost everything they export in a dairy way would have to be subsidized because their prices are so much higher than the world market. They have a few speciality cheeses that perhaps they can get high prices for.

Senator ZORINSKY. Well, then, if there is unanimity in the recognition of specifically the European Community using subsidies in order to gain a greater share of the world marketplace, have we actually ever made a concerted effort to approach like or similar subsidization, using the approach of taking a real close, hard look at our storage facilities as to what it costs the Government to keep and hold our surpluses in this country due to the lack of additional exports?

We are always talking about coming up with a few hundred million more for blended credit, for revolving funds for exports. I have talked to many people—unfortunately, some of them close friends of mine—who are in the warehousing business of surplus commodities for our agriculture, and they say they are ashamed of what they charge the United States of America—they are Americans, too—for holding grain, and in some instances, having constructed facilities and the Government renting them, with no grain in the facility or nothing in the facility.

I believe that we ought to take a look at diverting these dollars into subsidization to compete with the European Community with an effort directed at decreasing the amount of money that apparently the media and the consumers and the taxpayers are worried about in protecting and preserving the family farm.

Obviously, we are buying up a lot of grain and leasing a lot of facilities to put it in because we cannot sell it. I think almost for the same cost, we can send a tremendous message and signal to the

European Community by getting rid of that surplus and reducing the amount of costs in warehousing and continual building and leasing of area and space for future holding facilities.

Mr. LYNG. Well, Senator Zorinsky, the studies we have made would indicate that you are correct. If you were to purely evaluate the alternative cost, overall—not just storage, but the overall cost of trying to manage surpluses the way we have done it, and reduce the production in subsequent years, and so on—the cost of that as compared to the cost of taking your surpluses and subsidizing them as exports and moving into the world—the costs are higher under the efforts to manage the surpluses without subsidizing them in the world market.

The offset, though, and the thing that has kept the U.S. Government—not just this administration, but traditionally—from moving into an avowed policy of the subsidization of surpluses is that it would be very destructive in what we call the free market.

While the free market is less than perfect, it works very, very well, with almost $40 billion of agricultural commodities moving out of the United States this year without subsidies, or most of them without subsidies. Public Law 480 could be termed Government assistance, but there is about $1 billion there; to some small extent, blended credit could be.

But by and large, this free market has worked well for the United States and we do have some advantages. So our strategy particularly in this administration has been to try to persuade those countries that are subsidizing and have been taking business away from us to stop doing that.

And while we have not had anything that could be called at all a victory, we have made some progress and the volume of these things has begun to level off. The constant series of meetings that we are having, I think, offer a better promise for the future for U.S. agriculture than if we were to go into a system of all-out subsidization of exports.

It would be very costly on a permanent basis. It would give some wrong signals to producers. It would be something that I think would be very difficult for us in a number of ways to sustain.

Senator ZORINSKY. Well, I would just like to point out it is pretty costly for us on a permanent basis to continually store surpluses, also. That is not a 1-year deal; we have been doing it for many years.

If we cannot talk the French out of not selling military equipment to Nicaragua, I do not know how we are going to convince them not to go into the world marketplace and do those things they do in order to get business. I am not just talking about agriculture; I am talking about nuclear reactors and aircraft and all those other things.

When you go over to the Paris airshow and talk to some of them, they actually brag and boast and laugh about the United States of America and what they are doing to us. When you say we want to convince our friends, I think we can count our friends on one hand and cut off four fingers.

It is just discouraging to hear people in high leadership positions in foreign countries brag and laugh about what happens to us, even to the extent where we provide defense umbrellas for all our

friends all over the world. And one day they wake up and they say, well, if the United States is going to use their tax money to defend us, what are we going to do with our own tax money?

I am sure we are aware now that they came up with a brilliant solution. They use their tax money to subsidize their industry and agriculture with which to take the world market away from us, indirectly using our own money.

Thank you.

Senator BOSCHWITZ. Senator Melcher, do you have any questions?

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. I sure do, Mr. Chairman.

First of all, it is no news to anybody in this room that current agricultural prices are forcing some real questions among agricultural producers about how long they can stay in business. The whole scene in the agricultural parts of this country is so bad that they think we are crazy.

By "they," I do not mean just the farmers and ranchers; I mean our bankers, too. I met with a representative of every bank—generally, the president or executive vice president of every bank in Billings, Mont., about 10 days ago, and they all stressed one point as being even more significant as far as they were concerned than the budget deficit or anything on the foreign affairs horizon around the world.

They all said the most significant problem they had was the shortfall between the price of commodities received by producers, even with normal or better than normal yields—and I include in that cattle production and hog production, meaning normal calf crops and normal weights at pig sales.

That is their No. 1 problem, that shortfall between cost of production and what the price structure is for these commodities. It is simply driving them crazy in their loans with agricultural producers. Now, that is their No. 1 problem, and these bankers were all preaching from the same pulpit, the same set of facts.

Whatever we want to say in Congress, or the White House and the administration want to say as a public announcement, including the President's announcements last night in the press conference, there is no way that these most urgent problems can be avoided in this political year.

Some people say we will not have any consideration of taxes or there will not be any real action on the deficit. Well, I disagree; I think there will be some action on the deficit. I do not know whether there will be any taxes; I am not picking out any for myself, but I am sure there will be an array of tax increases to look at to help on the deficit.

But the one area where time is so pressing is agriculture, and there has to be action. I am not sure, Dick, from your testimony whether you are for or against these bills. I guess you are for parts of them in certain circumstances and you have to object to other parts of them.

I noted in a question that Senator Jepsen was asking that you were kind of skirting around this issue of whether or not the ad-

ministration wants to change domestic agriculture price support programs.

Of course, we are well aware of your desires on that to use the authority you have to cut back on the loan rates, as well as requesting Congress to do something about deficiency payments and target prices and reduce those, at least on wheat.

We are aware of that, but we have to be quite prudent, knowing the fix that these producers are in. But I want to get to a point where I think we are in total agreement, and that is on increasing sales, barter, grants, donations, whatever we want to call it, of surplus commodities from this country to those friendly countries where we hope to not only keep the same amount of trade we have had with them, but increase it.

You talked about Africa in your testimony, and I think that is fine. But there has not been a Philippine policy right now from this administration. We cannot even get a $10 million commitment for any time during this 6 months out of this administration to provide some food aid to the Philippines. That is still pending.

Cardinal-Sinn—it sounds almost like a term, but it is an individual—Jaime Cardinal-Sinn and CRS and the Philippine Government and all the business community made the application at the end of December jointly. They all came together, even though Cardinal-Sinn is thought to be an enemy of the Marcos regime.

They got together and made the request for just a commitment during the next 9 or 10 months out of this country for $10 million in food aid, and it has not been cleared yet. Here is a long-time friend and an ally through four or five wars, and a long-time trading partner, with 50 million people and growing. It is a tremendous potential for agricultural trade and they cannot even jack that out of this bureaucracy.

We have not got a policy in Mexico that really assures that they are going to have the same amount of agricultural products from this country, particularly in wheat, that they have had during the past several years.

Now, I think we can join together on these problems and admit that they are things we want to resolve in 1984. It has nothing to do with the election, though failure to do it is going to have a great deal to do with the election. Failure to do the obvious is going to create the problem that I think exists in Iowa right now, and this problem is for President Reagan.

I am told that the Des Moines Register poll shows him trailing the leading Democratic contender. I do not know whether that is accurate or not. I am also told that Wirthlin, the President's pollster, has found a tremendous shift in Iowa away from the President, and that his trip out there on caucus day was a well-advised political trip to sort of hold the line.

Failure to act on this is going to be extremely serious for President Reagan in this election year. Now, I have been telling all my constituents, when they ask me if we are going to do anything about agriculture in 1984—I have been telling them I think we have to and I think we shall because, among other things, it is a question of the political appeal of President Reagan's reelection.

I think we can join together on modifying at least section 416 or some other vehicle, and you have on page 6 some reference to the

issue of proceeding for sales of donated commodities as a way to help hard-pressed voluntary organizations do their work more effectively, raised by several members of this subcommittee. You say, "It is under review and we should have an administration recommendation within the next few weeks."

Now, I do not know whether you are referring to section 416 there or not. Are you?

Mr. LYNG. Well, not specifically. I think you know, Senator, that there is some legislation that calls for the monetization of Public Law 480.

Senator MELCHER. Public Law 480?

Mr. LYNG. Yes, and the monetization in some cases of section 416.

Senator MELCHER. Yes.

Mr. LYNG. And we have not at this point made a decision within the administration on a clear policy on that, and that was one of the things I felt this committee was interested in.

Senator MELCHER. I am, for sure, and I think everyone is.

Mr. LYNG. You and I have discussed this.

Senator MELCHER. Yes.

Mr. LYNG. If I might comment just briefly on your criticisms relative to the Philippines and Mexico, in the case of Mexico I think that the Mexicans do know what we are giving them. We are giving them, I think, over $700 million in loan guarantees this year. It is much more than the average of a number of years; not as much as the year before, but the situation in Mexico did not call for as much.

In the case of the Philippines, as you, I think, know, the Philippine fiscal situation deteriorated rather rapidly this year because of some of the political unrest following the assassination down there, and it caused them to have credit problems that they had not anticipated.

We did, in fact, give them $50 million of loan guarantees this fiscal year. It is not as much as they asked for, but there are a number of countries that we were unable to give as much as they asked for.

Senator MELCHER. Now, wait a minute. In the Philippines, the $10 million commitment in food aid has nothing to do with credits; it is just an outright continuation of some food aid for some hungry people.

The Philippine Government and CRS, the Catholic Relief Services, happened to come up with the same figures. They have got over 100,000 unemployed families; that is, nobody works in the whole family. Unemployment compensation is virtually nil in that country.

They came up with the same results; Catholic Relief Services and the Government get the same results that the numbers of those families are increasing by the week that have no money. Second, there is an increasing number where the family has only one meal a day.

Senator BOSCHWITZ. If the Senator would suspend, I would be very pleased to pursue this with the Senator from Montana and with the Department, but we have a——

Senator MELCHER. We have a lot of witnesses. I am going to wrap this up right away.

Senator BOSCHWITZ. Thank you.

Senator MELCHER. We are talking about some food aid immediately for a long-time friend. This political situation that exists in the Philippines is regrettable, but it certainly is not to be used as some reason not to supply some food aid to some very good friends whose families are existing on one meal a day.

That is the irony of this. We have got so much bureaucracy around here we cannot act, even though we know we want to act. I hope this is cleared up today or tomorrow; it has been pending for 2½ months.

In Mexico we have a different situation. We have not been in there with food aid. Now we have got an AID officer down there, as you know, and maybe they will accept some food aid for their people.

Their own university study just out this week shows that 35 percent of the population is malnourished. Thirty-five percent of a population of around 80 million must come to around 25 to 28 million, so that is a lot of people. Their own university study indicates they are malnourished, and this is the turning point for Mexico because the last few years they have been saying they can grow enough products of their own to feed all of their people.

It is finally coming out that they can feed all of their people, I guess, but the nourishment is not there. We indeed are slipping. The credit that you mentioned, $700 million, is a significant amount; they have not used all of it yet.

But what are we doing, applying credits to a peso that is at 160, 170 per dollar, whereas a couple of years ago it was closer to 20. How much are they going to buy and be able to pay in interest?

We need to do something very fast in order to retain these friends, Philippines and Mexico. There are other countries similar to them that are very much friends of ours; they are trading partners of ours. We need to retain them as trading partners, and so we have to find the mechanism, with our strong dollar and their weak money, to overcome this.

Amendment of section 416 should include monetization and adding wheat to section 416 capability, besides dairy products. I think that is a significant and necessary change. We do very much hope that Agriculture will join AID, and I assume the Department of State, in advocating and supporting very vigorously these changes in section 416, and ask Congress to pursue that because I know if the administration comes onboard, we will pass these amendments to section 416 within a matter of weeks.

Senator BOSCHWITZ. Thank you.

Secretary Lyng, let me just ask a very short and direct question. I know of the Senator's concern about the Philippines and Mexico. I introduced a bill a couple of days ago with respect to Africa, where the needs are perhaps even more intense. The types of needs that we find in the Philippines and Mexico really can be found in every country that we deal with, which does not mean that we should do less, but it certainly points out the difficulties of the problems.

Perhaps one of the other witnesses will talk about the Europeans and corn gluten, but I wonder if you could say a word just to bring me up to date. I have not read anything about it, though there was a short piece about it in the paper today.

Mr. LYNG. Yes. Earlier this week, the Council of Foreign Ministers of the European Community met and they did not act favorably on a request of the Government of France to accept the recommendation of the European Commission, which called for the opening of a dialog with us to modify our duty-free binding on corn gluten under article 28 of the GATT.

Senator BOSCHWITZ. Was that a denial or a delay?

Mr. LYNG. They denied the request of the French, but they did it on the basis that they did not want to take piecemeal action on matters of common agricultural policy. In essence, this was a postponement. At least, we do not view it as a victory on this issue.

It is simply a postponement. Perhaps in the meetings of the Council of Ministers in March or at some later date, this could easily be brought up as a part of a package relating to the common agricultural policy, and then be acceptable.

Some of the issues that some of the other members of the Community wanted to bring up were the compensatory amounts, the actual prices of commodities, and so on. The French did not want those in a package and the Council of Ministers thought that they should be.

Senator BOSCHWITZ. Well, I know that we will continue to keep the pressure on. You said in answer to Senator Zorinsky that free markets work well. You try to persuade countries that have subsidized to stop doing so, and you said that we have had some victories in that regard.

I wonder if you could just briefly detail some of these victories.

Mr. LYNG. Well, I think I said that we did not have victories, but we have made some progress.

Senator BOSCHWITZ. Then tell us about the progress.

Mr. LYNG. The progress, I think, is probably that they have not continued to expand in this regard. They have actually reduced the volume of subsidies, and we think that there is some opportunity in the days to come for better definitions of subsidies. We will be having some meetings with the Europeans; bilaterally with the European Community and multilaterally under the GATT, late in March. These will be high-level meetings.

We feel that there is some progress being made, and enough progress being made that it would be a mistake for us to take actions which would plunge us into an all-out war. This is, of course, one of the things that will inevitably result if the European Community were to continue their policies indefinitely and continue to expand this policy of subsidization. We would have no choice.

Senator BOSCHWITZ. I am sorry that my friend, Senator Melcher, left. I do not find the whole farm scene quite as depressed as he made it out to be. At least farmers in Minnesota seem to be doing a lot better at this time this year than they were 13 months ago in January of last year.

I think that the whole farm scene is a little better this year than perhaps it was. You also just mentioned in passing that farm ex-

ports were going to be in the range of $40 billion this year. Is that the projection?

Mr. LYNG. I think I predicted $37.8.

Senator BOSCHWITZ. The dollar apparently is a little more stable. I tried to get the figures as to exactly what has happened to the dollar. I am not quite sure if it has gone down in value or just stabilized in value and not continued to go up.

Mr. LYNG. It has actually gone down in the last couple of weeks relative to a package of European currencies. I do not think that has happened in relation to the yen. It has not been significant enough to have had a major impact, but at least we are pleased to see it come down at all.

Senator BOSCHWITZ. Senator Wilson, do you have any questions for Secretary Lyng?

Senator WILSON. Thank you very much, Mr. Chairman.

I apologize for arriving late, I think I might have missed comments by the Secretary that related to a subject I wish to pursue.

I heard you say, Mr. Secretary, that you felt that if the European Economic Community were to continue with subsidy, as much as you wished to avoid an all-out war, there would come a time when we would simply have to retaliate.

What progress can you report, and what specifically is the Department doing to impress upon the European trading partners that our patience is worn very thin?

Mr. LYNG. Well, as you know, Senator, this has been an ongoing thing for a number of years. The major push that we have made with the European Community in this started in this administration with the GATT ministerial meeting, the first one that they had had in 14 years, which took place in November 1982.

At that meeting, we asked the GATT to redefine agricultural subsidy. The European Community objected to that and no action was taken other than to form a committee to take a look at that situation and report 2 years later.

That committee has been meeting and will be reporting by the end of this year. There will be a meeting at the beginning of April in Geneva which I will attend as part of the U.S. delegation.

Senator WILSON. When is that?

Mr. LYNG. The first part of April; I think the 2d of April, the 2d, 3d and 4th of April.

Prior to that, we are scheduled to have a bilateral meeting with the Europeans, a culmination of a series of meetings that we have had with them, because we can get along pretty well with the other members of the GATT on this question, but with the Europeans as a holdout and GATT being one of these organizations that operates on a consensus basis rather than on a majority rules basis, we cannot accomplish anything without getting some agreement from the European Community.

So we have been working in an effort to persuade. We have also taken some actions, like the heavily subsidized sale of a million tons of wheat flour into the Egyptian market, which at the very least got the attention of the European Community. We have used blended credit in a number of places for the sale of wheat in an effort to actually regain some business that we had lost. This would

be in Morocco, Algeria, Tunisia—business that we had lost to the French.

We have actually sold some dairy products into the Egyptian market, which also was calculated to point out the things that we can do here to the European Community if we cannot come to some amicable solution to these things.

And I think there have been recommendations from Members of the Senate and the House of Representatives which have made it clear to the Europeans that the status quo cannot long be tolerated.

Senator WILSON. At the GATT ministerial in the fall of 1982, do I understand that at that time it was GATT that resisted a redefinition of subsidies and they appointed a committee that is to report now in April?

Mr. LYNG. No; the committee will report in the fall, but the report is to be completed 2 years after that meeting, which was in November. So it would be in October or November of this year that the committee will report.

Senator WILSON. Now, this committee was appointed by GATT rather than by the European Community?

Mr. LYNG. That is correct. It is a GATT committee. It is chaired by the Deputy Minister of Agriculture from the Netherlands, and the U.S. Department of Agriculture and the Office of the U.S. Trade Representative have been represented at all the meetings of that committee. I think they have had two or three meetings.

Senator WILSON. One of the things I would like to pursue, Mr. Chairman, is precisely what the relationship has been between the Department and the U.S. Trade Representative. I have a concern, frankly, that agriculture is not receiving adequate attention in terms of this specific problem.

We are suffering an imbalance of trade, broadly, generally. It includes agriculture; it is obviously by no means limited to agriculture. But it seems to me that agriculture has been something of the bastard stepchild, and I would be interested in hearing from the Secretary what assistance the Department has had from the Office of the U.S. Trade Representative in trying to achieve equity with our foreign trading partners.

Mr. LYNG. Well, Senator, I think we have had an excellent cooperation with the Office of the U.S. Trade Representative. I can concede that our victories have been few. We have not achieved as much as we would have liked to. I think probably the single most difficult problem we have had has been the problem of the strength of the dollar.

It makes the commodities which can seem very low to the producer in the United States be very high priced in terms of the currencies of nations everywhere. It would be unfair and wrong to criticize Ambassador Brock or the people in his office for their inability to solve those problems.

I think we have had excellent support from the U.S. Trade Representative. I know that my personal relationship with Ambassador Brock—he asked me to go along with him to that. He headed our delegation to the GATT ministerial. I spent nearly 10 days with him there and no one could have fought harder than he did at that time.

We have met with the European Community on a number of occasions. The Secretary of State, the Secretary of Treasury, the Secretary of Commerce, the U.S. Trade Representative, and the Secretary of Agriculture met with the European Community in Brussels last December and the December before that.

I think that I would have to defend vigorously their interest in agriculture and say that they have done a very good job for us.

Senator WILSON. Mr. Chairman, what I think might be more productive is to ask that the Secretary indicate what steps have been taken by the U.S. Trade Representative—I am going to ask the same question of the U.S. Trade Representative—with respect to trying to achieve some equity because I think that the Secretary would have to agree that the reason we are sitting here is that we have not achieved it.

It seems to me that as a nation we have been extraordinarily patient, but I would have to say that the burden of that patience is falling upon the agricultural community which is suffering a lack of legitimate access to foreign markets.

Mr. LYNG. Well, Senator, I would agree that the accomplishments leave a great deal to be desired and that our patience, too, is growing very thin.

I would be pleased, Mr. Chairman, to submit to the committee the kind of report that the Senator has suggested, giving a chronological statement of what we have been trying to accomplish. It might be of some interest.

Senator BOSCHWITZ. Would the Senator like such a report or is the Senator seeking such a report from the Trade Representative?

Senator WILSON. I would like a report from the Department with respect to the specific things with which they have worked with the U.S. Trade Representative on. I am going to ask the U.S. Trade Representative for their own report, but I think it would be good to get the response of the Department as well.

Mr. LYNG. We will be happy to do that.

[The following information was subsequently received by the subcommittee:]

U.S. ACTIONS TO SECURE EQUITABLE ACCESS TO FOREIGN MARKETS FOR U.S. FARM PRODUCTS

To respond adequately to the question of equity in market access for U.S. agricultural exports, it is necessary to provide some background on U.S. trade negotiating objectives and how they are pursued.

From an historical perspective, the major U.S. efforts to obtain better access to foreign markets for our farm products have occurred during the various rounds of multilateral trade negotiations (MTN) held under the auspices of the GATT. It became apparent in these GATT negotiations that sectoral reciprocity was an effective way to achieve improved market access only in very selected instances because the various countries participating in these negotiations generally had widely differing negotiating interests. For example, the U.S. has always had a keen interest in gaining and maintaining access to the EC market for oilseeds; however, the EC, which is greatly deficit in protein meal production, has had little interest in access to the U.S. oilseeds market. On the other hand, the EC may have an interest in improved access to the U.S. market for some other product, but the United States, not being an exporter of that product, may have relatively less use for improved access to the EC market.

The early rounds of GATT negotiations focused mainly on swapping concessions on an item for item basis and trade-offs were seldom in the same sector. In some cases, concessions may even have been made on industrial items in return for agricultural concessions if such a deal were judged in each country's interest. However,

as the number of countries participating in these negotiations grew, this type of negotiating format became difficult to use successfully as the vast matrix of concessions by and for each country became too unwieldy to balance.

In the last two negotiations, the Kennedy Round in 1967 and the Tokyo Round which ended in 1979, each country tabled a comprehensive set of offers which were then evaluated and modified on the basis of an evaluation of all other countries' offers.

A balance was obtained when each country determined that the total package of concessions that they were making was adequately compensated by the totality of concessions from the other countries.

This aim of achieving overall equity in our trade position with other countries has served U.S. agriculture relatively well we think. Since the U.S. exports many more farm products then we import, we generally make greater demands of foreign countries for reduced import restrictions than those countries do of us. The global approach to trade negotiations has permitted us to use bargaining chips from other sectors to secure the access our farm exporters need. This is particularly important for those agricultural sectors where our import protection is already relatively low and we have very little to offer in a negotiation.

The Administration's tariff negotiating authority expired on January 1, 1982, and our major trade policy efforts since then have been aimed at protecting the access we have achieved over the years during the various trade negotiations. With the EC, these efforts include the filing of GATT complaints regarding access to their market for raisins, canned fruit, and citrus, as well as complaints over EC export subsidies which undermine our access to third countries for wheat flour and poultry. We are also applying pressure bilaterally on the EC to try to prevent the adoption by the EC of proposals to restrict imports of U.S. corn gluten feed, oilseeds, and seed corn.

In addition, we have been working with EC and Italian officials to try to secure a duty reduction in the EC for U.S. almonds. This has been a slow process, but we feel progress is being made. Each side will have to obtain the necessary authority to implement the respective concessions.

In the wine sector, we have recently concluded a bilateral agreement with the EC covering technical barriers to two-way trade in wine. This mutually advantageous agreement aims at harmonizing our respective domestic regulations concerning wine making practices. As such, it will lift many of the technical barriers faced by U.S. wines going to the EC. On March 16, 1984, the EC announced they were moving ahead with implementation of this agreement.

In all of these efforts, the Department of Agriculture has worked closely with the Office of the U.S. Trade Representative. Staff and senior level trade policy makers of the Department are in regular contact with our counterparts in USTR as our trade policy strategies and actions are formulated and carried out. In bilateral and multilateral meetings to discuss agricultural trade policy issues, a representative of USDA almost always participates as part of the U.S. delegation generally headed by USTR. By the same token, representatives of USTR regularly attend and participate, to the extent possible, in the meetings of the private sector advisory committees organized by USDA on a regular basis to discuss all important trade policy issues.

A chronological list of high level meetings since 1981 between the U.S. and the European Community to resolve agricultural trade differences follows: November 19–20, 1981, US–EC High Level Consultations; February 8–9, 1982, US–EC High Level Consultations; November 8–9, 1982, US–EC High Level Consultations; November 24–27, 1982, GATT Ministerial; December 10, 1982, US–EC Ministerial; January 11–13, 1983, US–EC Agricultural Consultations; February 9–10, 1983, US–EC Agricultural Consultations; May 3, 1983, US–EC Agricultural Consultations; June 22, 1983, US–EC Agricultural Consultations; December 9, 1983, US–EC Ministerial.

Senator WILSON. Mr. Secretary, let me pursue a point that you made about some specific steps that could be taken if, in fact, we are not satisfied with the response from the European Economic Community.

What specific communication of these alternatives has there been? First, if you would outline the alternatives and, second, what specific communication of these alternatives has been made to the European Community.

Mr. LYNG. Well, the European Community has been very greatly concerned about the surpluses of dairy products that we have in

storage in the United States. They, too, have surpluses of dairy products which far and away exceed the amounts that we have.

There is a limited world market for these dairy products and they share that with largely the New Zealanders as being the primary people involved. We have on occasion indicated that we saw no reason why we should hold ours off the market while they subsidize theirs into the market. This is one area.

As was mentioned, our sale of wheat flour—they are well aware of the fact that we have large surpluses of wheat and that continuing to expand their production and export sales of wheat into our markets—we simply cannot tolerate that.

We have tried to avoid making specific threats because in international negotiations, you have a tendency to stimulate reprisal threats, and so on. It is a whole lot easier to get into trade wars than it is to get out of trade wars. We have been in trade wars with the European Community since it was formed and found this to be very costly to both, and no winners in the end.

The European Community, we must remember, as a group, is our largest single customer, buying roughly 8 billion dollars' worth of agricultural products from us every year. So we have been hesitant to threaten a good customer with what might be called idle threats.

But I think they understand that our patience is wearing thin, and I think that they are much more interested today in discussing these matters than they were 1 year ago or 2 years ago.

Senator WILSON. Well, I certainly agree we should not make idle threats. I think rather than threats, we ought to make some promises, and I must tell you that I think that there has to be a certain demonstration by action rather than by simply stating that we are nearing the end of our patience.

I quite agree that we do not want to get into a trade war. I would agree that on all sides there are losers, but I am not sure what it takes to get their attention. I will make a flat declaration that we are not enjoying equity on many fronts.

Later, I note we will hear testimony from Mr. Boutwell, and I think some of his testimony makes that clear. It is not a thing peculiar to any one region of the country; it afflicts, to use the example that you just cited, those who are daily producers whom we are asking to not market their products at the same time that the Europeans are putting theirs forth—egg producers, soy producers in my State, and producers of speciality crops.

Thank you, Mr. Chairman. That is all I have.

Senator BOSCHWITZ. Thank you very much, Senator.

Next, we have a panel: Bernie Steinweg of the International Trade Committee of the National Grain & Feed Association; Robert Kohlmeyer, representing the North American Export Grain Association; and Jon Jacobson, representing the Millers' National Federation.

Would you gentlemen come up and sit down? Mr. Steinweg, if you would proceed, we would appreciate it.

STATEMENT OF BERNARD STEINWEG, CHAIRMAN, INTERNATIONAL TRADE COMMITTEE, NATIONAL GRAIN & FEED ASSOCIATION

Mr. STEINWEG. Thank you, Mr. Chairman. My name is Bernard Steinweg. I am a senior vice president of Continental Grain Co. in New York, and am appearing today on behalf of the National Grain & Feed Association, of which I serve as chairman of their international trade committee.

The national would like to congratulate the members of this subcommittee for holding hearings on export expansion. They certainly are an indication of congressional awareness of the importance of grain exports to a healthy agriculture in this country.

I may add, Mr. Chairman, I am reminded that it was just a year ago today that our association appeared before the full committee on the discussion of export initiatives. So, again, I congratulate you and the members for your concern for our grain exports.

It is no secret that our exports are down from the past years both in tonnage and in market share. The reasons are many and known to us: the state of the world economy, the strong dollar, intense and sometimes unfair foreign competition, domestic supplies well in excess of market clearing levels, and our reputation as a reliable supplier.

While most everyone will agree on these reasons, many will probably argue or differ on the degree of impact each has had, and therefore on the potential solutions. Legislation recently introduced by the chairman of this subcommittee focuses on credit and aid as a means of improving agricultural exports.

Clearly, given the current world economic condition, credit and/or aid from the United States is of vital importance to many countries, particularly to the developing ones. The success of the Public Law 480 program, soon to be in its 31st year, is well documented. It has served humanitarian purposes and has led many of the aid recipients to subsequently become major commercial buyers of U.S. farm products.

Credit programs have also been an integral part of our Nation's export initiatives. Current year guarantees of $4 billion represent more than 10 percent of our total agricultural exports. They represent around 20 percent of our wheat and feed grain exports.

Further, GSM-102, the major program now in operation, provides for credit guarantees, and therefore no budget outlay is required if funds are repaid as scheduled. In principle, then, it would seem advantageous from all points of view to increase the amount of credit guarantees under GSM programs.

The problem, as we know it, is that some recipients are already having repayment problems. These nonrepayments have caused USDA outlays of close to $1 billion over the past 3 years. With more than $8 billion in guarantees extended in just the last 2 years, CCC estimates export credit nonrepayments will total around $4 billion between fiscal years 1984 and 1988.

So the question really is this: As we increase credit guarantees from current levels, are we extending commercial credit or are we giving aid? There is a difference. It would appear that much of it would be aid.

Quite possibly we should, and will, extend further economic aid to certain countries. This aid could possibly come in the form of grain shipments. Obviously, all sectors of our industry would benefit.

But if we do increase credit or aid to very high-risk countries, it can only be rationalized as a short-term emergency measure. It is not the solution to our agricultural problems in this country.

That is not to say that aid and short-term credit programs have no room in our export policy. There is, in the case of absolute need, a place for export subsidies when it becomes necessary to retaliate against unfair competition.

However, in our view, these programs are supplements to, not the foundation of this country's agricultural policy. They are dealing with the symptoms and not really the cure for the problem, and that policy must be based on market orientation.

Our association could be much more supportive of the proposed legislation if it were accompanied by specific measures to adjust domestic programs in ways that permit prices to move toward market clearing levels, thereby offsetting the additional potential Federal outlays needed for export programs.

Such steps would also send appropriate signals to exporting and importing countries around the world that the United States is determined to compete for and to service the export markets it has painstakingly developed.

We strongly endorse the funding of intermediate credit programs such as GSM-301. These programs, which develop infrastructure in other countries, provide the real growth potential for U.S. exports by enabling those countries to increase their total imports.

Funds have not been made available for these intermediate credit programs because of the urgency to provide short-term relief. We have a case here of short-term needs crowding out funds that can offer potential long-term gain.

Mr. Chairman, I appreciate having the opportunity to express the views of our association. We certainly offer our continued assistance as Congress deliberates the far-reaching impact of additional food aid and export promotional activities.

Thank you.

Senator BOSCHWITZ. Senator Wilson, if you have the time and if you do not mind, I think we will listen to the whole panel first.

Senator WILSON. Fine.

Senator BOSCHWITZ. In that case, we go to Mr. Kohlmeyer.

STATEMENT OF ROBERT W. KOHLMEYER, REPRESENTING THE NORTH AMERICAN EXPORT GRAIN ASSOCIATION

Mr. KOHLMEYER. Thank you, Senator. My name is Robert Kohlmeyer. I am a senior merchant with Cargill, Inc. I am here representing the North American Export Grain Association, an organization composed of public corporations, cooperatives, and private companies who account for more than 90 percent of U.S. grain and oilseed exports. As such, we have a direct and vital interest in the areas to which S. 2304 is directed, and therefore are most pleased to have this opportunity to express our views to this subcommittee.

By now, most are aware of the importance of grain exports to producers and those who supply producers with goods and services. The contribution made by agricultural exports to our balance of trade ledger is irreplaceable.

Most are also aware of the boom in grain exports during the 1970's, which saw world grain trade grow by 90 million tons, or some 65 percent, and saw the United States capture almost three-quarters of that growth.

Most are aware of the decline in those exports that has taken place since 1981. The volume of U.S. exports has shrunk by some 600 million bushels. And perhaps worse, U.S. share of the world market has declined by 10 percent.

The result is that today we have the capacity in this country to grow, handle, transport, and ship almost twice as much grain as we will export this year. Even expensive farm programs cannot mask the financial impact of this overcapacity on producer and exporter alike.

The worldwide economic downturn, the strong dollar, and increased competition from other exporting countries have all played a part in shaping our current problems. But the biggest, most significant reason for our grain export decline can be summed up in three words: Ability to pay.

This brings us to S. 2304. The North American Export Grain Association strongly supports many of the initiatives contained in the proposed Food Aid and Export Market Promotion Act.

We support an immediate increase in the amount of funds authorized for the GSM-102 credit assurance program beyond the $4 billion limit currently approved. A figure between $5.5 and $7 billion might be appropriate for use against the ability-to-pay problem in the short term.

Our association also favors an increase in funds available for direct food aid to needy nations under title II of Public Law 480, and perhaps with particular emphasis on the food-short countries of central Africa. Special care must be taken, as always, that food aid reaches those who need it and in a usable form and manner.

In a broader sense, our association believes that these and other provisions of S. 2304 can fit well into a consistent, carefully targeted export credit policy, one which can serve us for the next several years.

The objectives of this approach should be, first, to ease the current liquidity crunch facing many key customers; second, to achieve the maximum practical increase in U.S. grain exports in the short term; and, third, to accelerate growth in total import demand over a longer period in key developing markets.

A policy designed to achieve those objectives should have several components. One would be the increased authorization for GSM-102 credits contained in S. 2304. This increase should be carefully targeted on those recipients who can provide an increase in net additional grain usage.

Another component should be the GSM-5 direct credit program. While 102 guarantees should be the primary source of short-term credit availability, there may well be certain recipients who exhaust private sector credit availability and are thus appropriate candidates for direct credit facilities from CCC. Again GSM-5

direct credits should be carefully targeted on such destinations that can expand total grain demand.

Another feature of a broadened agricultural export credit policy should be the ability to offer countries receiving credit assurances that those credits will be available in predictable quantities over a 3- to 4-year period. A 1-year time horizon is too short for governments in developing countries to launch demand-expanding programs.

Annual start-from-scratch review of credit availability raises uncertainty in their planning, discourages expansion projects for fear they will be lost if access to credits is denied in forthcoming years.

Both Canada and Australia have recognized the value in offering multiyear credit commitments to some of our erstwhile good customers.

Finally, many countries would benefit significantly from credits whose terms were made more attractive when the recipients invest proceeds into infrastructure development—breeding herds, port warehouse facilities, and the like. This can be done through GSM-201 and GSM-301 intermediate term credit programs, and through titles I and III of Public Law 480.

Our association supports the efforts of S. 2304 in this regard, and believes that longer term credits tied to infrastructure investment are an innovative way to attack the ability to pay problem while creating demand potential for the future.

We do not suggest that better credit programs will magically reverse the downward trend of U.S. grain exports and return us to 1981 levels. That is probably some years away under the best of circumstances.

We do suggest, however, that thoughtful use of a broader, more flexible credit approach can halt our loss of market share and build a solid base of demand for the future. The Food Aid and Export Market Promotion Act, S. 2304, takes some important steps in that direction.

Again, thank you for the opportunity to appear here on behalf of our association.

Senator BOSCHWITZ. Thank you very much, Mr. Kohlmeyer.

Mr. Jacobson, would you proceed, please?

STATEMENT OF JON JACOBSON, CHAIRMAN, FOREIGN AGRICULTURAL POLICY COMMITTEE, MILLERS' NATIONAL FEDERATION

Mr. JACOBSON. Mr. Chairman, my name is Jon Jacobson. I am senior export merchandiser for Peavey Grain Co. in Minneapolis, and chairman of the Millers' National Federation's Foreign Agricultural Policy Committee.

I am pleased to appear before your subcommittee on behalf of the Millers' National Federation, the trade association of the U.S. flour milling industry. The federation has long been an active participant in the deliberations of your committee and we welcome the opportunity to appear again.

Before I begin my comments, I would like to express our appreciation to you, Mr. Chairman, for your consistent support of agricultural trade and for the initiative you have taken to introduce S.

2304. This bill will draw attention to the continuing difficulties in trading U.S. agricultural commodities. I hope our comments will be helpful to that process.

There are three particular areas of the U.S. agricultural trade situation which we would like to address today. They all center around the trade policy matter of unfair European Community export subsidies and access to foreign markets for U.S. agricultural products.

The three areas are, No. 1, export PIK; No. 2, use of the $175 to $190 million budget reconciliation money to counter export subsidies; and, No. 3, the importance of value-added exports to the American economy and the value of defending our rights to trade in those commodities.

We do not wish to use the committee's time by reiterating the effects of the use of export subsidies by the EC on U.S. flour exports. Those effects have been well documented many times before your committee and are a vital part of the attached brochure which we prepared to describe the importance of continuing our efforts toward establishing free trade in world flour markets.

Instead, I am here to emphasize that specific parts of S. 822 and the later S. 2005 are important tools to the defense of our trading rights. The provisions I will comment on are badly needed to evidence our commitment to the goal of achieving free trade in agricultural commodities.

The first example of such a provision is the concept of export PIK which was proposed by Senators Cochran and Huddleston, a variation of which was used on the Egyptian flour sale.

We are in support of the export PIK concept because we have operated the only program of this type and found it to be both efficient and effective. Unfortunately, since we ended that effort last October, the EC has returned to a monopoly position in Egypt, the largest world flour market.

In short, we have returned to the exact situation which prompted the first shot across the bow. Our feeling is that another export PIK-style program is needed to show a consistent trade policy in relation to these subsidies.

Second, with regard to the use of the so-called Helms budget reconciliation money for export programs, we have long held the idea that those funds should be used to counter subsidy programs of our competitors.

While not opposed to the proposed use of these funds as seeds of a revolving fund, we feel that the amount is too small to have a significant impact on world infrastructural problems for agricultural imports. The most effective and dramatic use of these funds would be to maintain solid, targeted pressure on the EC for reforms of its export subsidy program in specific sectors.

The lapse of the flour initiative has given the EC the indication that the United States is not willing to continue its efforts to achieve free trade in agriculture markets. That impression should be changed either through continued use of PIK-style initiatives or through aggressive use of the $175 to $190 million. Next year will be the last year those funds are authorized and their use should be a major consideration to this subcommittee.

I should point out at this time that programs such as blended credit are not capable of making up the difference between U.S. flour prices and the subsidized European flour prices. Therefore, a more dramatic, forceful, and targeted effort is required.

Third, it cannot be repeated too often that the ripple effects of value-added agriculture exports benefit virtually every economic sector and individual in the United States. The Millers' National Federation, as a chartering member of the Export Processing Industry Coalition, or EPIC, encourages the committee, regardless of what vehicle is used, to reaffirm the Congress' understanding and support for expansion of America's value-added agricultural exports.

Last, we want to commend you, Mr. Chairman, for your support of U.S. food aid through the Public Law 480 program. We were pleased to see your provision of an additional $500 million in Public Law 480 authorizations for 1984 in S. 2304, and your recent bill to increase the supplemental budget appropriation for Public Law 480, title II, African Drought Relief, by $150 million. Both these provisions recognize the importance to the United States of exports of value-added products and our responsibilities to the world's neediest people.

Mr. Chairman, we urge this subcommittee and the Congress in general to remember that the export subsidy programs of our competitors will not fade away without concerted efforts. Providing our Government with the tools, incentive, and will to make these efforts is a worthy goal for this subcommittee.

Thank you for your attention.

Senator BOSCHWITZ. Thank you very much, Mr. Jacobson. All the accolades of the subcommittee chairman that you and the others stated were richly deserved. [Laughter.]

We do have a statement from Senator Dixon which we will insert into the record.[1]

There seems to be a difference in viewpoint among you and I would like to explore that just a little bit. I would first like to ask if each of you will comment upon Secretary Lyng's comment that he feels that we are making some progress, although perhaps the progress is in the lack of additional subsidization or actions taken by the EC.

In your judgment, and you are involved in trade every day, are we making some progress with respect to some of our competition out there or are they becoming more intense, Mr. Steinweg?

Mr. STEINWEG. Well, if we are talking about the grain export side, I would say, yes, there is some progress. The major increase in wheat exports around the world has come from Argentina and Canada, not from the European Community, in the last 3 or 4 years. I think 10 or 11 million tons come from those two countries.

The Community has held their wheat exports reasonably stable at about 15 million tons, and held to that figure, give or take a million tons. So I would call that some progress. Others may say, well, that is just freezing it at already high levels. But from where we were in 1980–81, I think they have frozen their exports and I think

[1] See p. 65 for the prepared statement of Senator Dixon.

you will find that the increases have come not from the Community, but totally from Argentina and Canada.

As far as the access question, whether it is corn gluten feed or the oilseed question, I do not think I am in a position to give a better opinion than Secretary Lyng. The fact is nothing has been done as yet, despite the fact that here we are, another 2 years after.

I think ultimately, probably, something may very well happen, but the fact is it has not. So I would say one could talk about some progress there.

Senator BOSCHWITZ. Just to pursue that a little further with you, you spoke that you would feel more comfortable with the bill if it were accompanied by specific measures to adjust domestic programs in a way that permits prices to move toward market clearing levels, thereby offsetting the additional potential Federal outlays.

I wonder if you could expand on that just a little bit.

Mr. STEINWEG. Yes, sir, I would be pleased to. For one thing, I do not think anyone can say that the farm programs of the last few years have worked. We are just concluding a year where the expenditures for farm programs exceed farm income. I cannot feel that that is the aim of farm policy.

Our costs are too high, certainly, compared to the results. The modest results that were spoken of earlier came at a tremendous cost. We are all concerned with budget deficits. Let us face it; if we gave increased aid, no matter how deserved and how much we want to do it, especially to friendly countries, the fact is it adds to budget deficits. It adds to the strength of the dollar, which are two of the things that we are all wanting to turn around.

So we should look elsewhere and see that possibly the cost of maintaining our price supports at levels above the world market that encourage production elsewhere, and then turning around and asking the taxpayer to pay either in the form of a subsidy or a giveaway—really, that is not the answer to our long-term problems.

I think we moved away from those policies back in the 1960's as a result of the Food and Fiber Commission report. So I think if we adjusted our domestic programs more to world market levels, that would reduce budget outlays in that area and possibly make them available for the aid programs that I think, in one form or another, whether it is to agricultural aid or direct aid, as we do through IMF or the Commercial Development Fund or other places, could be done in the form of agricultural products.

Senator BOSCHWITZ. When you speak about the budget, you are also talking about target prices. But what levels do you think would be necessary, loanwise, in order for us to perhaps impact some of the production in other countries or to impact world markets? Where do we have to be on wheat and on corn?

Mr. STEINWEG. Well, let me answer two ways, not to beg the question. I think, first of all, that doing it in a form of what we are calling market orientation in the market—I think, No. 1, it sends a much clearer signal to the exporting countries that we mean it, rather than that we do it with the U.S. Treasury.

I think it also says something to the importing countries that it is a commitment; that we will be there year after year and that we are not there with flour 1 year in Egypt and gone the next year. I do not know what kind of a policy the Egyptians can make out of that, or plans or determinations as to what the United States really intends to do.

We spent $150 million, and other than sending some kind of a message to the Community, I am not really sure what we got for it, in all deference to the millers themselves, who had a much better year as a result. I think some of our industry, including our members of our association—a lot of us are probably having the problems we are today because we felt in the 1970's that the good times were here.

We expanded our handling facilities, our export elevators, our ownership of barges, truck, and railcars. We are in the same predicament that the producers are in terms of capacity that is probably not more than 50 percent utilized, for the simple reason that that demand is not there for reasons we have gone into.

The way to get it back is to get back to the market. If your prices are too high, I do not know that you solve the problem by continuing to raise them, and that is what the farm bill of 1981 did, in fact. It mandated higher prices.

The CHAIRMAN. Mr. Chairman, I have to get back to Foreign Relations.

Senator BOSCHWITZ. Yes, Mr. Chairman.

The CHAIRMAN. I want to add to the accolades that have already been directed to you. I do not want you to get too emotional about it.

Senator BOSCHWITZ. Well, I do easily. [Laughter.]

The CHAIRMAN. Mr. Steinweg, are you familiar with the Grace Commission report?

Mr. STEINWEG. Not the details, but certainly what they have been working at.

The CHAIRMAN. I want to try it on for size with you three gentlemen. Unfortunately, the person who was responsible for that part of the commission report was not able to be here.

I asked the committee's lawyer to get with the Grace Commission people yesterday afternoon. Were you able to do that?

Mr. FRANKS. Yes, sir.

The CHAIRMAN. Do you feel comfortable about a general explanation of what they suggested in the report with respect to exports?

Mr. FRANKS. I believe so.

The CHAIRMAN. All right. This is Mr. Bob Franks, who is the committee counsel.

Describe it and then I would like to hear your reaction to it.

Mr. FRANKS. Mr. Chairman, maybe the best way would be just to read their very brief three items from the Grace Commission report on the export guarantee financing programs of the Department.

Basically, they recommended that the guarantees of CCC should be transferable to the holders without having CCC approve those transfers, and also that the guarantee obligation should be traded in a secondary financial market without CCC approval, and that

the guarantees should be allowed to include all the interest rather than just covering part of the interest.

The CHAIRMAN. What effect would that have? Do you want to think about it?

Mr. KOHLMEYER. If I could respond, Senator, I happen to be fairly familiar with the details of that part of the Grace Commission report, principally because I happened to be personally involved.

In effect, what we were suggesting is that a way to lessen the cost of credit to recipients of agricultural credit without subsidizing that credit cost would be to try to bring the cost level of those interest rates down to the lowest commonly traded interest levels in this country, principally those for Government securities.

So, therefore we were suggesting that the credit obligations be made marketable, as is the case with the FNMA's, GNMA's, Treasury bills, and bonds, and so forth. At the time we created that part of the report, there was probably a 4½- to 5-percent spread in the interest rates that were being commonly charged to GSM recipients and the interest rates at which other Government obligations were trading in the bond, Treasury bill, and so forth, markets.

It seemed to us that by creating a manner of tapping the cheaper interest rates, we could benefit the program recipients, and particularly lower the cost to those recipients and make our interest rates that they receive more competitive, again, without the cost of a Government subsidy. Essentially, that was the thrust of the idea.

The CHAIRMAN. I want to get with the people and think about this a little bit more.

Now, you also recommended eliminating cargo preference, did you not? I do not want to stir up a mess of snakes, but——

Mr. KOHLMEYER. Yes, we did. We were unable to determine any measurable benefits specifically to agriculture that occurred as a result of cargo preference. We noted that there is a substantial body of evidence that suggests that the subsidies paid the U.S. merchant marine through the means of cargo preference may not be creating the modern U.S. flag merchant marine that the subsidy is designed to create, and that there may be more effective means, more direct means of subsidizing the creation of a modern merchant marine if it is deemed to be good national policy.

The CHAIRMAN. Rudy, I apologize for getting off the track here.

Senator BOSCHWITZ. That is perfectly all right.

The CHAIRMAN. Well, I have to go back to the other committee, and I will give them your regrets that you cannot be there.

Senator BOSCHWITZ. I certainly appreciate it.

The CHAIRMAN. Rudy and I both serve on this committee and the Foreign Relations Committee, and I think the computer over in the bowels of the Capitol always works it out so that the Foreign Relations Committee is meeting when the Agriculture Committee is meeting, so we have to pick and choose.

But I want to add my thanks to Rudy's to you for spending your time and sharing your wisdom with us. Your testimony, although we don't agree on everything, is very impressive and I shall study it very carefully. Thank you very much, and thank you, Rudy.

Senator BOSCHWITZ. Mr. Jacobson and Mr. Kohlmeyer, in that case, let me get back to the questions that I posed to Mr. Steinweg.

Is our Government making some progress with respect to some of our trading adversaries, if that is a proper way to delineate them, and do you agree with Secretary Lyng that we are making some progress? Should we take a more aggressive stance?

It would appear from your testimonies that you feel that we should, but would you evaluate what we have done and assess it?

Mr. KOHLMEYER. I do agree with Secretary Lyng that we have made some progress in our dispute with the Community. I also agree with him when he indicates that the measure of that progress is probably relatively small and that we have a long way to go.

But it does seem to me that, first of all, Mr. Steinweg indicated we have recaptured some specific areas of wheat demand that had for several years been serviced primarily by the Community.

Clearly, the Egyptian flour subsidy arrangement, the so-called shot across the bow, attracted their attention and has given them, I think it is clear, a lot of cause for concern. And it may even have paralyzed them into inaction on the subject of the corn gluten feed.

As you are aware, that issue has been pending now for the better part of 2 years and it seems to undergo a 3-month postponement every 3 months in terms of their own approach. I do not think we have laid the issue to rest by any means, but I do think that their unwillingness to come to grips with it, despite the fact that they perceive it as an enormous economic problem internally—their failure to come to grips with it can, at least in part, be laid to the aggressive approach that we have taken toward the Community.

Senator BOSCHWITZ. Bernie, you said that cost $150 million. I thought it was less than that.

Mr. STEINWEG. That is one of the figures I am hearing.

Senator BOSCHWITZ. Jon, maybe you can comment.

Mr. JACOBSON. Some progress, perhaps, in terms of the EC changing their pattern, their market shipments, their subsidy level—no results. I am sure there has been progress in the bilaterals and ministerial discussions that have been going on for the past couple of years.

I had the unique privilege of acting as the GATT technical consultant when the flour case went before the GATT back in 1982. I think it is noteworthy to say that the GATT complaint was filed by the United States in December 1975 and went through a series of informal consultations, at which time both parties agreed to consult again in a period of months.

It finally went to a formal consultation in October 1981; four panels in Geneva, January through April 1982. No result forthcoming from GATT by the end of last year was what led up to the January action on wheat flour.

During that time, the EC had been shipping flour consistently at 3 to 3½ million tons per year, its subsidies averaging in excess of $100 per metric ton. We can all calculate what kind of a subsidy number they are talking about.

Since that time, since the shot across the bow, I think progress has been made in terms of now they are willing to talk with us. They did not even want to discuss the issue of agriculture prior to that time in a serious manner.

But at the same time, they are continuing to subsidize; while at lower levels, certainly at levels which provide the full market for them in that area, with a subsidy of $70 to $80 a ton, depending on how you want to calculate the full impact of the subsidy.

At the same time, in the absence of that subsidy, the U.S. milling industry would have as much of that business as we could handle; the employment would be here. So while I agree that $150 million is a significant amount of money, I think it has to be viewed in perspective.

We are not really asking for business that does not belong in the United States. We are asking that the market be recognized and free trade be recognized. I would like to give both of you gentlemen—I am sure Senator Boschwitz has one—a little recap of that million-ton program just to illustrate some of these things further for you.

Senator BOSCHWITZ. Thank you very much. A final question, and that is, what is the market clearing price, Mr. Steinweg, and to what degree would loan levels have to be changed?

In the event that target prices remained substantially higher than loan rates, would it have a negative impact on what we are trying to achieve with respect to the loan rates? What are market clearing prices?

Mr. STEINWEG. We can only find out what market clearing prices are if we allow that to happen.

Senator BOSCHWITZ. Of course.

Mr. STEINWEG. Our loan levels or our support prices prevent that from happening. We cannot be exact. I do not have, but I certainly can furnish you, what the average price to producers has been for the last 5 years in both wheat and corn.

In soybeans, we have a loan program based on that very thing and I think we have found that that seems to work very well. I would say if you took the average price—I can certainly make it available; I do not have it with me. But prices would have to decline. It depends at what percentage of that average price you would then have loan levels.

My own thought would be in the vicinity of 75 percent of the average price of the last 5 years, knocking out the highest and the lowest. If we did that, I think on wheat and corn you would find that, using the last 5 years, you would have probably a more significant drop in loan levels than I think would be acceptable in 1 year.

The fact is we have had some high prices compared to today's market, but I think there is much to be said for our trying to find out at what level we can find more business. We are certainly not increasing business in this country. Our feed grain consumption probably was the greatest in this country in 1973. We have never reached that figure in the last 10 years, so we are not apparently a growth market.

I am begging off the specific numbers. I would say, given the state of the world economy now and the world demand now, prices would probably have to be at least 10 to 20 percent lower than they are right now.

Senator BOSCHWITZ. Loan levels?

Mr. STEINWEG. Loan levels, yes, sir.

Senator BOSCHWITZ. Farmers will tell us, oh, that is just fine; drop the loan level, but do not fool around with the target price. There, of course, lies a rather large expenditure to the Federal Government.

Will that have a countervailing type of effect?

Mr. STEINWEG. Well, it certainly would. I am not a strong advocate of target prices, but I think they can be rationalized on the basis that even in a totally free market society, recognizing that the demand for grains is far more stable than is production due to the vagaries of weather, and so on, I think the public would recognize that it is in their interest to have some stability of price and production, and therefore to provide some kind of deficiency payment, income transfer, subsidy, if you like.

Anybody who thinks that a deficiency payment is not a subsidy, when we talk about our system compared to the Community's, I think is kidding themselves. But if we do that, I would rather see it come out in the form of a deficiency payment, also based on the market, than I would see it interfere with our marketing abroad, which is what higher loan levels have done. I would rather see it paid in the form of a deficiency payment, and the people of the Bureau of the Budget would agree with that statement, too, by the way, I think.

Senator BOSCHWITZ. I am sure they would.

Do you have any comment?

Mr. KOHLMEYER. Well, I would like to say that I do not really know what market clearing price levels for U.S. grains would be this year. I do know that it is likely to be different, however, than from next year, the year after, or for any period of time in the future.

I think that is one of the reasons why it is so difficult to legislate each and every 4 years mandated ranges for loans and target prices because, with all due respect to those legislating, I suggest that it is not humanly possible to be quite that farsighted.

It seems to me, therefore, that as we enter the period of discussion that inevitably will precede the creation of a new omnibus farm bill in 1985, we need to examine other alternatives in terms of setting price support policy.

Bernie has suggested one which I think has merit; namely, tying loan rates to a formula based upon preceding market year prices. It seems to me that that makes substantially more sense than simply artificially creating levels.

As a footnote to that, the soybean price support program is always held up as an example of one that succeeds because we always raise enough soybeans, it seems, and Government involvement in soybeans, particularly in terms of loan defaults, has been minimal. That is a loan rate based specifically upon soybean market prices on a preceding year formula.

It also seems to me that we need to reexamine the concept of target prices and deficiency payments, and it may well be that there are some alternatives, different kinds of systems that can be used that, in and of themselves, do not provide overproduction incentives that may be used in place of the target price and deficiency systems.

I think all of these are issues that we are going to, I am sure, collectively be spending a lot of time on in the forthcoming months.

Senator BOSCHWITZ. We will indeed, and I will spend some time on it with you back in our State so that I can prepare myself for the 1985 farm bill that is coming up; I will with Bernie as well. I thank you gentlemen very much for coming.

In our next panel is Wayne Boutwell, whom we welcome back to the committee; LaVern Freeh, Land O' Lakes; Don Chartier of Far-Mar-Co; Rich Pennell; and Glenn Tussey.

We have been dragging a little bit in this hearing, and do not want to deny adequate time to the members of this panel, but if you can abbreviate your remarks and be as pointed as possible, I would appreciate it.

Wayne, it is very nice to have you back here now in your more exalted position. Would you proceed?

STATEMENT OF WAYNE A. BOUTWELL, PRESIDENT, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. BOUTWELL. Thank you very much, Mr. Chairman. It is indeed a pleasure for us to be here today to represent the National Council of Farmer Cooperatives in support of both your bill and the bill introduced by Senator Helms last fall.

With me today are Mr. Donald Chartier, president of FAR-MAR-CO in Kansas City; Mr. Rich Pennell, senior vice president of Harvest States Cooperative in St. Paul, Minn.; and Mr. LaVern Freeh, vice president, Land O' Lakes, Minneapolis, Minn.

What I would like to do, Mr. Chairman, in the interest of time, is submit a prepared statement for the record.[1]

I would like to make a few brief introductory remarks and then let each of three panelists go into more detail on some of the specific issues.

Senator BOSCHWITZ. Yes.

Mr. BOUTWELL. It is clear from most of the analysis that has been done over the last several years that a great percentage of the variation in farm income has been associated with the export market.

In the 1950's, it has been estimated that 10 percent of the variation in farm income was associated with exports. By the 1970's, the portion of variation in farm income from exports had increased to 27 percent. If you look at the experience over the last 3 years, comparing 1981 to 1983, income in 1981 was $30.1 billion; in 1983, it was down to $23 billion. That was a 24-percent decline.

During that same period, we have seen exports slide from $43.8 to $34.5 billion, for a decline of 21 percent. So I think it is clear from those numbers that we continue to see exports play a greater and greater role in the variation in farm income in this country.

There are several reasons for that, and we have heard this morning the comparison with the early 1970's. In the early 1970's we saw a situation where world weather problems which created a demand for U.S. agricultural products to fill that void.

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[1] See p. 75 for the prepared statement of Mr. Boutwell.

We had a strong world economy at that point in time, and we also had a weak dollar, which created an increased demand environment for agricultural products.

When we look at the 1980's we see ourselves in a situation which is very much opposite from that; in fact, point by point, opposite from that. We have seen increased foreign production at the same time as we have decreased our own production. We have decreased our production some 37 percent since 1981–82, while foreign grain production has increased 7 percent.

So, while we are trying to balance the supply and demand, our competitors are increasing theirs.

Senator BOSCHWITZ. I did not understand those figures. What decreased 37 percent?

Mr. BOUTWELL. Our own domestic grain production decreased from 1981 to 1982 by 37 percent. At the same time our foreign competitors increased theirs. Now, part of that is the PIK program of this past year.

Senator BOSCHWITZ. Yes.

Mr. BOUTWELL. But while we are trying to cut back on our supply to bring things in balance, our competitors are increasing theirs and moving it onto the market.

Senator BOSCHWITZ. What were the percentages of their increases?

Mr. BOUTWELL. Thirty-seven down for us; seven up for them.

Senator BOSCHWITZ. And what did that represent in tons?

Mr. BOUTWELL. In tons, for us it is about 124 million metric tons.

Senator BOSCHWITZ. Decrease?

Mr. BOUTWELL. Decrease. For them, it would be about a 14.3 million metric ton increase.

Senator BOSCHWITZ. Increase.

Mr. BOUTWELL. Wheat is a real good example. U.S. production is down 10 million metric tons over that period. Our competitors' wheat production is up 15 million metric tons. So, in essence, on a world basis in terms of trying to balance supply and demand, there is actually a plus 5 million metric tons more in the world market in terms of the overall supply and demand situation.

If you look at our wheat exports, then, U.S. exports during that period were down 21 percent, but our competitors' wheat exports were up 17 percent.

Senator BOSCHWITZ. Tonnage?

Mr. BOUTWELL. Tonnage.

The other thing is the world-vide recession. We saw economic growth rates at 4.5 percent in the 1970's. In 1982, it was down to less than 1 percent. In 1983, it was about 2.1 percent, so we are beginning to come back a little bit, but it is still well below what it was in the 1970's that brought on a large surge in demand for agricultural products.

The exchange rates—we have heard this morning of some improvement, but there is still a 20- to 30-percent trade-weighted basis impact on the cost of U.S. products in world markets. Financial difficulties in many parts of the world have caused some problems by making it difficult for many of our customers to get financial resources into the market.

In the short term, given the problem we have now, it is very important that the bill you have introduced will provide some assistance to some of our traditional customers as they attempt to regain some sort of economic stability and growth.

We have heard where our competition provides wheat subsidies at $70 to $80 a ton; and broilers 15 cents a pound. Things like that obviously reduce the demand for U.S. agricultural products.

So, Mr. Chairman, as we see these declines and impacts on the U.S. exports, it is important that we make efforts to regain lost market shares, while at the same time building new markets for the decade ahead. That is the reason your bill is so intriguing because it carries with it both concepts. It carries with it the credit programs which address the short-term problems, but it also carries with it some assistance in the developing areas of the world, which is a more long-term market development tool.

We see the two together as trying to address the very difficult short-run versus long-run problems faced by U.S. agriculture.

[The following letter was received by the subcommittee:]

NATIONAL COUNCIL OF FARMER COOPERATIVES,
Washington, D.C., April 5, 1984.

Hon. PETE WILSON,
Hart Senate Office Building,
Washington, D.C.

DEAR SENATOR WILSON: You recently sent me a question regarding the provisions contained in S. 2005, introduced by Senator Helms, and S. 2304, introduced by Senator Boschwitz. Specifically, you asked me what the National Council's position was regarding the direct export credit provision contained in both bills.

To begin with, I agree with your comment that the source of funds for both provisions would ultimately come from the Omnibus Budget Reconciliation Act of 1982. In that bill, Senator Helms added a provision that directs the Secretary of Agriculture to use between $175–190 million in FY '84 and '85 for providing direct export assistance for farm products. S. 2005, would ear-mark these funds for assisting those commodities which have been adversely impacted by unfair trade practices. Section 5 of S. 2304 requires the Secretary of Agriculture to provide $25 million in FY '84 and $50 million in FY '85 for the purpose of providing funding for USDA's Intermediate Export Credit programs (i.e. GSM–201 and 301).

As you are well aware, the National Council has strongly supported both S. 2005 and S. 2304 because we feel that together these two bills will provide the Secretary with additional tools to make the U.S. once again competitive in the world marketplace. However, we do recognize that the bills contain some specific differences. In the case of the direct export credit provision, we would prefer the provision in S. 2005 that would ear-mark the $175–190 million in FY '84 and '85 for assisting those commodities which have been adversely impacted by unfair trade practices employed by our competitors.

If you have any additional questions or if we can be of further assistance to you with regards to these export initiatives, please give me a call.

Sincerely,

WAYNE A. BOUTWELL, *President.*

Mr. BOUTWELL. What I would like to do now, Mr. Chairman, is stop there. We have organized our testimony and if you do not mind, Don Chartier, president of Far-Mar-Co, will be next.

Senator BOSCHWITZ. Fine.

STATEMENT OF DONALD M. CHARTIER, PRESIDENT, FAR-MAR-CO., INC., KANSAS CITY, MO.

Mr. CHARTIER. Mr. Chairman, members of the committee, my name is Don Chartier and I am president of Far-Mar-Co, a regional

grain marketing cooperative that serves 300,000 farmers in seven States.[1]

Far-Mar-Co is a subsidiary of Farmland Industries, a regional farm supply and marketing cooperative that serves the needs of more than 500,000 farmers and ranchers who live and work in 19 States in the central United States.

I want to join the other members of the national council in expressing the support of the members of the farmland family for Senate bill 2304, the Food Aid and Export Market Promotion Act of 1984.

The provisions of this act are most timely because of the current and continuing weakness in the exports of American grains and oilseeds. We believe that the declines in the export of American farm products in recent years are strongly related to the current worldwide monetary conditions.

A number of nations that should be our best customers for grain and oilseeds are faced with significant liquidity problems. We believe these problems can be solved, but only with moderation and patience over a period of time.

It appears likely that the next few years will be a period of global financial adjustment, concentrating on the consolidation of debts. World food trade would appear to be growing more slowly in this period than in the 1970's.

World economic growth also appears to be less robust than in the past decade, but is predicted to improve in the late 1980's as liquidity problems diminish. The future growth rate of American farm exports will depend heavily on the monetary and fiscal policy actions taken by the United States these next few months.

For the past 3 years, the United States has been losing market share in the world markets for grain and oilseeds at the same time that these markets have become stagnant. To cite the segment of the market we know best, world export of all wheats have declined from 109 million metric tons in the 1981-82 market year to 106 million metric tons in the 1983-84 market year. Projections that exports will total 108 million metric tons in the current market year now appear to be very optimistic.

During these past 3 years, as total exports of wheat in the world were declining slightly, U.S. market share dropped from 48 percent during the 1981-1982 market year to 41 percent the following year, to 38 percent last year.

It appears to us that this loss of market share is primarily the result of the value of the American dollar against the currencies of competitor nations. A strong U.S. dollar has provided our competitors——

Senator BOSCHWITZ. I respectfully request that you summarize these matters and not repeat things that have been stated three or four times during the course of the morning.

Mr. CHARTIER. We just simply want to point out the importance of the GSM-102—this is the section that I want to talk about—and how it helps today against the liquidity problems that the other nations have.

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[1] See p. 67 for the prepared statement of Mr. Chartier.

We think that this bill of yours certainly addresses this issue and is a way for us to regain some of the market share. You heard before many times the different problems that we have been involved with as far as competing in the world. Most of the business in wheat that we are doing today, or a good share of it, depends upon our ability to provide financing for us to be able to get this business.

We have run into a number of situations where countries have come to us wanting to buy grain, and at the same time needed credit. We have had problems with the amount of the GSM-102 that has been established up to this point, and then how it has been released.

We have been fortunate on a number of occasions to be able to, at the last minute, hang on to this business because they had tickets to go other places where they could get credit. Other countries have been providing credit, and have also been undercutting us in the market. So we have a great need for the GSM-102 that is provided for in your legislation.

Senator BOSCHWITZ. Are other countries having the same kind of experience, do you know, Mr. Chartier? Apparently, from what I gather from some of the testimony this morning, upward of half of the GSM guarantees are resulting in losses, or are expected to result in losses. Perhaps that figure is a little higher; it was about $4 billion, but they were speaking about several years.

Are other countries also experiencing such large losses? Are you familiar with that?

Mr. CHARTIER. I am trying to understand what you——

Senator BOSCHWITZ. The guarantees mature because the countries do not pay. How are the other countries who are so generous in their extension of credit handling this? Are they experiencing the same losses we are? How are they handling that?

Mr. CHARTIER. I am not sure that they are, and at this point, again, part of the problem is the terms of credit, short-term credit. It is certainly a help if it is given to the developing countries, and as we do more of it and the need becomes greater—and the need has become greater because of the other countries' liquidity problems—I am sure we are probably looking at some rescheduling problems and probably some default.

Heretofore, we have not, I do not think, had default; some rescheduling, perhaps. But it is a cost-effective program. I believe it has already been studied by USDA and when they originally proposed the amount of GSM-102 and asked for over $8 billion in GSM-102, they had programed into this amount of credit guarantees they were asking for that even if there was a loss of 25 percent of that amount, it still would be a cost-effective program because of the amount of money it would save for us to store and handle, and so on; also, the tax from generating income for employment, and so on.

Senator BOSCHWITZ. I believe you are correct. In Mr. Steinweg's testimony he said that with more than $8 billion in guarantees extended in just the last 2 years, the CCC estimates that export credit and nonrepayments will total around $4 billion between 1984 and 1988, which is about half of the guarantees that are extended.

Wayne, are you familiar with how other countries that are so aggressively extending these credits? Do they also make the rationale that the cost of storing, which they often cannot even do, or the cost of profits associated with selling it more than offset the cost of the program?

Mr. BOUTWELL. Mr. Chairman, it is very difficult, obviously, to get into the internal books within some of these other countries to find out exactly what is going on with regard to their credit programs.

It is obvious to me at least, since they are proceeding with these kinds of programs, some on a more liberal credit basis than the United States, they feel that this is a cost-effective way of implementing their policy to produce and subsidize onto the market rather than to entertain any kind of program to cut production.

Given the countries that they are going into, many of them having the same financial difficulties as countries that we are going into, they must be facing some of the same problems with regard to rescheduling.

But if the figures provided to us by the Department of Agriculture are correct, as Mr. Chartier indicated there is still a positive cost-benefit ratio even assuming a 25-percent rescheduling.

Senator BOSCHWITZ. Do me a favor and ask the expert in your company, Mike Cook, that question, and ask him, too, whether or not he has updated his treatise that he wrote on agricultural trade that I read 2 or 3 years ago. I would like to read the update.

Pardon me for cutting you short.

Mr. BOUTWELL. Next is Rich Pennell, senior vice president of Harvest States, St. Paul, Minn.

STATEMENT OF RICH PENNELL, SENIOR VICE PRESIDENT, HARVEST STATES COOPERATIVE, ST. PAUL, MINN.

Mr. PENNELL. Mr. Chairman, I am Rich Pennell from Harvest States Cooperative. Of course, here I am testifying on behalf of both our company and the national council. You pointed out that there were some redundancies already. I do not intend to add to them. I am going to walk away from my prepared statement pretty much because of that.

The areas on which you are focusing now—you have got to be very specific when you do inquire about how the experience has been. For example, on credit that has been extended to India in the past by our competitors, the repayment has been satisfactory. At the same time they were doing that, we were doing that business for free dollars.

A more recent example and one which has gotten a lot of attention here this morning is that of Egypt. The Canadians recently for the first time sold 600,000 tons of wheat to Egypt; they did extend intermediate credit. Our agent and the people with whom I have talked are not familiar with the specific terms.

But, you see, they do not have any experience on that; they do not know whether they are going to make good or have to reschedule or what, because that is an unprecedented sale. That is brand-new business; that has traditionally been our business.

Egypt will buy about 4.4 million tons this year; a million of it will be under Public Law 480. The Australians will sell them about a million tons under a long-term agreement, and the balance of probably another half a million tons, they will pick up from Australia on open tender.

But I think your interest is in how to respond against the Community's competition—here is a perfect example that you are reacting to what the Community has done. Here is an opportunity under the terms of your bill for us to proact and anticipate some of these problems by heading, for instance, the Canadians off at the pass.

I know that Egypt was offered intermediate credit, and that is the tool specifically that we are asking and you are asking, and we applaud you for it, to beef up. Those are the tools that we frankly do not have right now, and if we are to recapture our market share we have got to do that.

The other point, I think, Senator Zorinsky asked about this morning and commented on. If it is possible for us to save carrying charges—and Bernie Steinweg commented on that; he said call it aid, if you care to, if you really wind up with a loss. But, nonetheless, you are saving carrying charges for the quantities that get exported.

Not only does that have a positive cost-benefit ratio, but it is sending a very clear message to competitors around the world who have stepped in and taken what was our market share.

Now, the other point that you have gone back to several times is relative to the weighing of their creditworthiness. In our judgment, as soon as you start extending credit to people who have not been receiving it, obviously you are going to get into some problems.

We would be less than honest if we did not think that, you know, Brazil, Mexico, Poland, and a lot of these people who are faced with incredible debt are not going to have some problems that will require rescheduling or whatever.

Nonetheless, in the current economic climate the commercial banks just have not been able to extend them credit either. And I think it is very important to focus on the ultimate cost-benefit ratio, which is favorable, and I hope you have picked up on that.

You have asked for $7 billion. The USDA study, which said that it had a favorable 1.09 cost-benefit ratio, was based on 102 guarantees of $8.9 billion. So, you see, it is even more favorable at the lower level.

Senator BOSCHWITZ. I must say I have not seen that study. Maybe you can get that to me.

Mr. PENNELL. We will certainly see that you get it, sir.

So, actually, Mr. Chairman, I think it is important that we recognize that this is not the total answer to the whole thing.

This bill is not the total answer to rebuilding our export posture and recapturing the market share that our farmers need, but it is certainly a fine set of tools to get started on the job. So we support the bill and we are very proud of you for introducing it.

Thank you.

Senator BOSCHWITZ. Thank you very much. That leaves LaVern Freeh.

STATEMENT OF LAVERN FREEH, VICE PRESIDENT, LAND O' LAKES, INC., MINNEAPOLIS, MINN.

Mr. FREEH. Thank you, Mr. Chairman. My name is Vern Freeh and I am vice president for international development and governmental affairs at Land O' Lakes, which is a food and agricultural cooperative owned by 350,000 farmers in an eight-State area of the Upper Midwest.

We certainly appreciate the opportunity to testify in support of Senate bill 2304 on behalf of Land O' Lakes, its farmer members, and the national council.

We are rather latecomers into the international arena because it was just 4 years ago that we decided that if we were going to be a viable and successful company in the years ahead and really serve our members, we simply had to expand our international efforts.

So we set four goals for ourselves. We said we wanted to develop new international markets and greatly expand the export sale of products that were produced by our 350,000 farmer members.

Second, because we were a cooperative, we wanted to work with people and cooperatives in other countries, through cooperative-to-cooperative relationships, through the use of Public Law 480 commodities, and other means, to help these people in other countries achieve some of their goals, help us achieve some of our goals, develop their economies, and work toward some long-term market opportunities.

We also felt that if we were going to be successful, we would have to position ourselves both nationally and internationally to better understand and to influence national and international trade and development policies which affect Land O' Lakes and its members.

Finally, if we were going to get involved, we wanted to have the same quality of effort in our international efforts as in our domestic efforts.

We feel that each of these goals is important because it is no longer possible to simply sell products internationally. If we wish to sell products over the long term, and to developing countries especially, companies like ours, especially cooperatives, need to get much more involved in helping people in other countries to develop their economies so that they will have the money to buy our products.

We believe that the best way to develop this market potential is to provide the developing countries with credit so they can buy our products now, and to provide them with technical and economic assistance so they can develop their economies and continue to buy our products in the years ahead.

Helping people to help themselves in developing countries helps them, but it certainly helps us, also, both short term and long term.

Another thing that we learned as we moved into this international arena is that it is very difficult, if not impossible, for companies like ours to effectively compete internationally without appropriate support and a close working relationship with our Government.

The worldwide recession, the increased foreign production, the strength of the U.S. dollar and the other things that you have heard about certainly make it difficult and restrict our ability to compete internationally. As a result, U.S. sale of exports of ag products has declined in recent years and is continuing to decline.

Given the present conditions, the only way that we can increase our competitiveness short term is through Government support and assistance, like that proposed in your bill, and we certainly support this bill.

The GSM-102 financing and the proposed expansion of existing intermediate credit programs provide companies like ours with the type of tools that we need to meet our competition on somewhat near equal terms and, as such, are critically important to our success.

Likewise, the commodities under title II of Public Law 480 and section 416 are critically important to our international development-technical assistance efforts. Currently, we are making use of agricultural commodities under title II of Public Law 480, and hope to utilize the commodities under section 416 as well for establishing development programs which creatively use U.S. agricultural surpluses to meet the immediate food and hard currency needs in developing countries and for building long-term market opportunities.

I would like to very briefly describe to you a program we have just established in Jamaica which puts all of this together. We are particularly proud of this project because we are told it is the first of its kind by a U.S. company and involves the blending and effective utilization of U.S. private sector technology and expertise, surplus U.S. dairy products, and foreign aid funds for development purposes.

Here is how the project works. Land O' Lakes has organized a nonprofit foundation in Jamaica, called the Jamaica Agricultural Development Foundation, which will be controlled by a small board of directors on which Land O' Lakes is a member. It is completely a private foundation.

It will be staffed initially by Land O' Lakes staff, who will select and train a Jamaican staff to run the foundation. Under the project plan, surplus dairy commodities, bulk cheese and butter, are transferred by the U.S. Government to the foundation, which contracts with processors in Jamaica to have the bulk commodities processed into value-added products and sold commercially in markets outside the United States which are not available to U.S. dairy products.

Land O' Lakes provides cheese and butter processing technology to the food processors. The profits generated from the sale of these products, which we are estimating will be about $50 to $60 million over a 6-year period, will be used by the foundation to provide financing in the form of loans, loan guarantees, investments or grants for large- or small-scale projects designed to improve the Jamaican food and agricultural industries and their general economy.

As the Jamaican economy improves, they will be in a position to buy more products directly from U.S. companies like Land O' Lakes.

We got the final approval on this project from the U.S. Government in December of 1983. The first shipment of surplus butter

and cheese will arrive in Jamaica by June of this year. We are going to continue to play a major role in the project by being on the board of the foundation, by providing technology to the company that further processes the bulk butter and cheese, and by providing management expertise and technical assistance for projects which are generated through the use of the development funds.

What we have done serves as a model for development efforts that we are now trying to launch in other countries. We believe that what we are doing can be done by other private sector companies as well, and that we have only scratched the surface of what can be accomplished if our private sector and our Government effectively work together and use surplus commodities to meet immediate needs of developing countries, while developing long-term market opportunities for U.S. firms.

Unfortunately, the funding under title II of Public Law 480 is currently grossly inadequate to meet the existing and potential needs for such programs, and very much needs to be increased to at least the level proposed in Senate bill 2304.

Likewise, USDA's overseas donational authority under section 416 needs to be expanded to include other commodities held in CCC inventory. Finally, and I would like to underline this, we feel it is exceedingly important that the authority under section 416 should be expanded to allow for monetization for international development purposes of the commodities authorized under 416.

The USAID lawyers tell us that that authority is already there, but the USDA lawyers tell us that the authority is not there. We would like to have a clarification on it because we think this is very important for the kinds of projects that we are working in.

Senator BOSCHWITZ. Does our bill do anything about that?

Mr. FREEH. No, you do not speak to that, and I am saying I would like to see that added to your bill, that 416 can be monetized.

Our international efforts have convinced us that whenever possible, we should use our surplus commodities to help people develop an economic base which will survive and flourish long after the commodities themselves have been consumed.

In order for that to be possible, there must be authority under section 416 for the monetization of these products, just as we are now able to monetize products or commodities under title II.

Mr. Chairman, thank you for the opportunity to testify on behalf of your bill. We strongly support the bill and hope that it can be enacted into law this year.

Senator BOSCHWITZ. We will look into adding that to our bill. I do not recall talking about it. Sometimes bills have things in them that Senators do not know about, and I do not know if you have had that experience.

Senator MELCHER. Might I speak directly to that point?

Senator BOSCHWITZ. Pardon me, Senator.

Let me ask you, specifically, in Jamaica what do they do with the bulk cheese and the bulk butter? What is the further processing that happens?

Mr. FREEH. The foundation gets the product in bulk form and then it goes out on bids to be further processed. We provide technology for the further processing.

Senator BOSCHWITZ. How is butter and cheese further processed?

Mr. FREEH. With the butter, they might put a particular flavor in, which they are doing. They do not all like the same flavor we do, so they repackage it in smaller packages, they slice it, they add a different flavor. Butter goes down in 60-pound blocks, so they repackage it there and put it in different forms.

But this is contracted out to the processor; they bid on a bid basis. The money that goes back to the foundation is used for development projects.

Senator BOSCHWITZ. Senator?

Senator MELCHER. Mr. Freeh, you got into section 416 and it is about time that we all recognize that as far as these people are concerned who try to operate Public Law 480, they do not want to try to operate Public Law 480, title II, anymore because the restrictions are so cumbersome that by the time they get a program approved, it is 6 months into the year and they can look forward to starting again, renewing it for the succeeding year, which is crazy.

It is a fact of life that there are a lot of restrictions under Public Law 480, and to modify it to take out those restrictions looks like a major overhaul. That is why the AID people and the people in other governments that work with us on AID are saying to us, why do you not set up section 416 to be more viable?

For about 7 or 8 months, Rudy, we have been working on this, and we have been working on it with a lot of different groups. We have not had Land O' Lakes in, so I am glad to see you in support of modifying section 416.

We have had the Cooperative League in, we have had all sorts of people in, like CARE, CRS, and Bread for the World and this administration's AID people, who all say the same thing. Now, we need to get the Department of Agriculture saying the same thing—and I think you and I will say the same thing on it, Rudy.

Here is what they want done: They want it monetized, clearly. The argument that you mentioned between the solicitors of AID and the solicitors for the Department of Agriculture indeed is true; they see it differently. Agriculture solicitors are in the driver's seat on this because while they have got a memorandum of agreement between Agriculture and AID on section 416, the authority to say yes or no still rests with the Department of Agriculture.

So it is a fact of life that those solicitors say you cannot monetize.

Second, we need to add other commodities to section 416—right now, it is only dairy. We know wheat is almost in perpetual surplus in the United States and it is something we have to address directly. I do not know of other commodities and if you have got some in mind that we can look at that are going to be surplus for long periods of time, fine; let us know.

Third, barter seems to be unclear in section 416. Barter authority runs all through the agricultural acts for the last 40 years, yet it is unclear under section 416, so let us make it clear.

The last thing that is very significant—AID already thinks it is there, but the solicitors of Agriculture think it is not there—and that is should it be a multiyear program. It should be a multiyear program on dairy products and wheat because we have got a mul-

tiyear, on into the future as far as the eye can see, question on surpluses.

That gives us four points, which I do not believe are contentious within AID—I think they will support all four. I do not think they are contentious at all within the relief organizations—CARE, CRS, Bread for the World, church groups, and the others. They all see it the same way.

If this Senate committee sees it the same way, I think the Agriculture Department will see it the same way and the administration's recommendation will be "let us go." Indeed, we will have a bill ready. We will put it in with this bill or put it in with the chairman's bill or anybody's bill. We will blend them together and get something passed, and then hope the House will do the same and the President will sign it.

I think the President will sign it. I have faith in the electoral process. I think when you come against a blaze of where the voters are at, and they are going to tell you in November, it hastens your thinking and attracts your concentration on the problem.

I was afraid your testimony, until you got into section 416, was not going to be specific enough. Jamaica is fine, but what is the potential there? You mentioned they are going to export it, so the potential could be greater than just Jamaica.

But I have to look at where we are at right now, and I have just chosen two countries for examples, the Philippines and Mexico, to concentrate on the past several months. You know, we can talk about this credit deal, and I am all for it; the Mexicans are using it and the Philippines will use it to a certain extent.

The real facts of life are that the strong dollar limits how much you are going to use. In Mexico's case, they are going to go to 170 pesos to a dollar within a matter of weeks. How much can they saddle themselves with, and will it meet their needs?

The answer to that is no, it will not meet their needs because they need more food than will be provided through that mechanism. Second, you run into the question that you brought out and I think others have brought out in their testimony of the reluctance of prudent guidance by this administration or any other administration of how much risk can you take on guaranteeing these loans.

Then you fall back on other programs. I am all for food for peace, but I think it is too cumbersome to work with. I am ready to go to section 416; let us use it, and let us use in a broader way.

I have one question. You indicate that on monetization, you would go beyond the preparation of the products, beyond the distribution of the products. In other words, you are going to monetize part of it and allow that government to sell in the marketplace to raise cash to do these things.

You are sort of going beyond where I would go. You are sort of saying, well, let us go into all the opportunities there are through title II for development within a developing country.

When you get into large quantities of milk or wheat that I think are necessary to move through section 416, then I think you get too high in monetization and you run into a problem that almost says, well, how much of a blank check are we going to give these governments?

Mr. FREEH. Senator, this is a private sector operation; it does not include the Jamaican Government. This is not a program with the Jamaican Government. This is a private sector operation, of course, with the support of the Government, but the Jamaican Government does not get involved; neither does our Government other than to monitor what we are doing and to audit that everything is being handled in an appropriate way.

But we feel that the U.S. private sector has a role to play in this. We cannot just simply be talking about wanting to sell to other people. We have got to somehow figure out how we can play more of a role in helping them to be in a position where they can buy our products as well.

Maybe we have not done enough in that area, and we are trying to find some ways that we can work with our Government, with the surpluses, with some of these people in other countries to develop some of these things.

Senator MELCHER. Yes, but I asked you how far you would go on monetization, for example, in Mexico or the Philippines. One has a population of 50 million and the other has a population of 80 million and they are growing every day, every week. How far would you go in monetization under section 416?

Mr. FREEH. I am not sure I understand your question.

Senator MELCHER. All right. I will take the Philippines because their infrastructure is ready and is there and it works. Let us say that we are dealing with 200 million dollars' worth of dry powdered milk a year through their program. How much of that would you allow them to monetize under 416?

Mr. FREEH. Well, I guess my point would be that what I would like to see is the flexibility so that you can monetize it or it does not have to be monetized.

Senator MELCHER. That is right; either way.

Mr. FREEH. Either way.

Senator MELCHER. If it were monetized, how much?

Mr. FREEH. Well, I guess I——

Senator MELCHER. I think those are questions you are going to have to answer for us because we are going to have to make a judgment.

Mr. FREEH. OK.

Senator MELCHER. I want to start out by saying they can monetize up to 20 percent. If you are only dealing with 25 million dollars' worth of dried powder milk, 20 percent does not generate much money for it. But if you are dealing with 200 million dollars' worth of dried powder milk, I am sure there are plenty of Senators who are going to question us: Should you give them a blank check for 40 million dollars' worth of monetization?

Mr FREEH. I will respond to that after this hearing.

Senator MELCHER. All right.

Senator BOSCHWITZ. I would welcome, Senator, some of the thoughts that you have just expressed as an amendment to this legislation.

Senator MELCHER. We also have had a hearing on the chairman's bill which mandates that the Department of Agriculture move 150,000 tons of dairy products in a fiscal year. That is 10 percent of

the surplus, and it is probably below the amount of the accumulated surplus each fiscal year.

In other words, it goes 10 percent of the way with the surplus, but it probably does not even catch up with the growing surplus. We have several bills here and I hope to introduce this other one in a week or so. Perhaps we can get all of them together because I think there are extremely fine points in all of these approaches.

I do not see how we are going to get rid of dairy surpluses abroad unless we almost mandate it because the Department has not been innovative in using section 416, pressing on AID to say let us use section 416; we are giving you this memorandum of agreement and let us use it and let us get going on it.

I think the problem is here in 1984 and I think this is perhaps the beginning of the forum in this committee where we make some real strides forward.

Yes, Rudy, it will be available soon and I would like to discuss with you about blending it in with yours and the chairman's bill.

Senator BOSCHWITZ. Well, we thank the panel. You are very helpful and your comments are worthwhile to the committee and we thank you for coming. We thank, also, the Senator from Montana for his comments.

If the next panel would now come forward: Mr. Pryor, Cathy McCharen, and Glenn Tussey.

Senator, I am meeting with the Prime Minister of New Zealand today. He undoubtedly will bring up that 150,000-ton bill; they are always very concerned about that.

Senator MELCHER. Well, you might say to the Prime Minister of New Zealand that if they feel any concern about what we are trying to accomplish, they could trot out a little bit of their wealth and put their money where their mouth is and provide it in food assistance to some of these countries.

Australia, by the way, is over in the Philippines right now telling them they are going to give them $1 million for food aid, with no strings. New Zealand can do the same. They have turned down credit terms for the Philippines in the past several months on dairy products and they might loosen up.

Senator BOSCHWITZ. Mr. Tussey, you are kind of sitting alone here on the schedule. We will put your entire statement in the record, if you would proceed.

STATEMENT OF W. GLENN TUSSEY, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION

Mr. TUSSEY. Thank you, Mr. Chairman. I will greatly abbreviate my remarks because the problems that are facing us in the export area have been well defined here this morning.[1]

Senator BOSCHWITZ. Thank you.

Mr. TUSSEY. I would like to say that we like the focus of S. 2304. We think that you focus on some things in that bill that are very practical. Public Law 480 has long been used as a means to obtain

[1] See p. 80 for the prepared statement of Mr. Tussey.

not only our export objectives but many other objectives of our Government, and so has CCC credit.

Earlier this year, the President of the Farm Bureau, Bob Delano, wrote a letter to Mr. Stockman—as a matter of fact, last October 21. In that letter, he pointed out to Mr. Stockman the predicament that we were in; that our exports had dropped in the last 3 years by $9 or $10 billion. He suggested that CCC credit was a way that we could stimulate exports.

So, that is quite in harmony with what you are trying to do in S. 2304—the recommendation that we made to Mr. Stockman, which was that we should, in fiscal year 1984, double the amount of CCC credit over fiscal year 1983. So, that is in harmony with the section 2 provisions of S. 2304.

We also support the other export credit provisions in the bill as provisions that are very useful and meaningful and specifically address some of our export problems.

Regarding the food aid, we have long supported Public Law 480 from the time President Eisenhower signed it back in 1954. We think that is a vehicle that has served our Government well, served farmers well, and fed a lot of hungry people.

Earlier this year, Bob Delano was on the Carlucci Commission, the President's commission on foreign assistance. He and Wally Campbell, who is to testify here today, recommended a strong increase in Public Law 480 assistance to the developing countries of the world.

I remember some figures from that commission that were very striking. It showed that over, I believe, the last 10 years—and these were commission figures—other foreign assistance had increased something like 95 or 96 percent, whereas Public Law 480 assistance had only increased in that same period about 16 percent. So we are lagging in our foreign assistance effort in increasing the amount of food that we are providing.

So we support the provisions of this bill regarding food assistance. We support the increased authorization, provided that it is ascertained that it can be utilized by the voluntary organizations that distribute it.

We also support section 4 of the bill, which would expand section 416 of the Agriculture Act of 1949. The only other comment that I have is regarding the GAO study. We feel that an inventory should be made of existing studies. If they do the job, then the funds should be used to promote other aspects of the program to move more commodities. But if there is still information needed, then we support that section, also.

Mr. Chairman, these are our views on the bill and we support it strongly.

Senator BOSCHWITZ. Thank you very much, Mr. Tussey.

Mr. Pryor?

Mr. PRYOR. I am on?

Senator BOSCHWITZ. Yes.

Mr. PRYOR. Mr. Chairman and Senator Melcher, I will try to abbreviate my testimony as much as possible. I am Earl Pryor. I am a hands-on wheat producer from Oregon. I am now president of NAWG. I have with me Carl Swenson, whom I am sure you are

familiar with, who is going to pick me up when I fall flat on my face.

Senator BOSCHWITZ. I thought a Minnesotan, Don Loeslie, was president.

Mr. PRYOR. Well, Don is immediate past president.

Senator BOSCHWITZ. You have a policy in your organization of 1 year?

Mr. PRYOR. Yes.

Senator BOSCHWITZ. Just when you are getting used to the job, out you go.

Mr. PRYOR. Well, that is not entirely true. We have a rotation where we are 2 years behind the saddle, so to speak.

Senator BOSCHWITZ. I see.

Mr. PRYOR. I really think Don has done a tremendous job.

Senator BOSCHWITZ. He was down here a lot. Whether that is a measure of his doing a terrific job, I am not sure, but he was down here.

Mr. PRYOR. He is working at it.

Senator BOSCHWITZ. Yes, he sure is.

STATEMENT OF EARL PRYOR, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. PRYOR. What I would like to address is, basically, that with about 60 percent of our U.S. wheat crop moving into world trade, I think it is clear that our solution to export marketing problems does not lie in our domestic farm programs.[1] Although we have a safety net in the farm programs, we need that only while we are trying to rebuild our export trade and I do not see it as a substitute for some strong trade initiatives. I want to make that very clear.

In addition, looking at Senate bill 2304, I see that it is going to accomplish two goals; that is, to expand food exports through current programs and provide the Secretary of Agriculture with some additional authority to provide new credit arrangements to countries that will graduate from Public Law 480 programs.

I only have one reservation with that. What is going to be the position of Secretary Block when OMB says hold those funds? We have had problems with that. I see that as still a problem. I hope that we can solve that.

There is also the suggestion that we have long advocated, this $500 million increase in Public Law 480. We are suggesting that perhaps it ought to be outside of the per capita gross national product cap of the $625, because this certainly limits the use of it.

The other area that I would like to address briefly, and I am sure you have heard it before, is that it has been proven that an increase in Public Law 480 would increase the income on our farms.

For instance, a study by the Michigan State University model indicated that a $2 billion Public Law 480 program would increase farm income by $400 million, reduce the Government storage costs $18 million, and increase Federal tax revenues by $64 million.

Senator BOSCHWITZ. How much would it decrease the Government storage costs?

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[1] See p. 83 for the prepared statement of Mr. Pryor.

Mr. PRYOR. Eighteen million is the figure.

Senator BOSCHWITZ. Eighteen?

Mr. PRYOR. Eighteen million, and increase tax revenues by $64 million. I hope that is true; I hope farmers have to pay that much more income tax.

Moving on to a bill that I would like to comment on, it is one that Senator Helms has before the subcommittee, Senate bill 2005, which is called the export PIK program. It is for the increased exportation of value-added products.

I would like to relate a personal experience. We have been in close contact with other competitive producer groups, mainly Canada, Australia and the EEC, and they have been very apprehensive about our initiative in an export PIK. They are very concerned because they see that as our most productive tool in terms of expanding our trade and it would really put them, they feel, in a very defensive position.

So I am very supportive of that, particularly when it goes into export directly. The PIK programs that we have now have weighed heavily on the market because, in essence, we are putting more product directly on the market with no home other than to go directly into the market itself, so you are exposed, so to speak. So I view this as a very constructive export PIK.

In summarizing, we are certainly in support of these two measures and I would like to suggest some supporting initiatives, perhaps. I would like to comment, first, that we do not have a farm program problem. We are really dealing with symptoms when we talk about the farm program problem.

What we really have is a marketing problem. I think anybody who takes the time to analyze what is going on can clearly identify that. The symptoms are embodied in the embargoes, the sanctions and the trade issues, particularly in terms of wheat interests, high interest rates and, I think, the lack of significant trade incentives that are really central to our market penetration.

We are going to have a national dialog, I believe, on the farm bill and, as such, perhaps we can get into the areas of farm, food and foreign policy because we need to establish these policy parameters in order to get a really viable export policy.

I will be damned if I can figure out what our export policy is, so I would hope that we would be able to identify that somehow. The agricultural complex is up to about 25 percent of the GNP and its potential has not yet been consciously exploited at all. We have just been floating along with the so-called farm problem masking in the fact that we are not really concentrating on export opportunities.

So I guess the question is, why can we not vigorously pursue what we do best. Certainly, we have proved that we are one of the best producers of food and fiber in the world, so why not capitalize on that?

Some of the additional marketing thrusts that we might look at—one of the things Senator Melcher just mentioned is bartering. I do not think that we have consciously tried to expand that or use it to its best potential.

It seems to me that we need to expand the co-op opportunities in international trade. They have that authority, yet it has been sputtering; they cannot seem to get it off the ground.

We need to look at export trading companies. I have done some preliminary investigation in those areas. Particuarly if you are looking at countertrading, you need a minimum of $3 to $5 million to even look at it. Some way, you need to develop the opportunity for some consortia to develop in this area.

We need, I think, particularly to look at some LTA dialog. Canada has two-thirds of their production before they go out to plant guaranteed; Australia is over 50 percent. We are starting with two major ones, and that is it, with nothing in terms of that degree of penetration.

Senator BOSCHWITZ. Two million tons?

Mr. PRYOR. No. I said Canada had two-thirds.

Senator BOSCHWITZ. Two-thirds, and Australia has how much?

Mr. PRYOR. Over 50 percent.

Senator BOSCHWITZ. And we have what?

Mr. PRYOR. We only have the two, one with China and one with Russia.

Senator BOSCHWITZ. Two contracts?

Mr. PRYOR. Yes.

The other subject that I think has some merit, also, that Senator Melcher was talking about was 416. I would love to see that authority extended to wheat products.

Thank you.

Senator BOSCHWITZ. You heard Mr. Steinweg say earlier that there should be a market clearing price. Have you been patient all morning?

Mr. PRYOR. Yes, sir, I have been patient.

Senator BOSCHWITZ. The hearing has gone on for quite some time. What was your reaction to that and how can that be implemented?

Mr. PRYOR. Well, I certainly recognize that when he said 75 percent, that would be a tremendous drop in 1 year.

Senator BOSCHWITZ. He said that?

Mr. PRYOR. Yes. What you are saying there is that there is a tremendous exposure in terms of deficiency payments. The real test of that, as farmers see it, is the support of Congress and the public to allow that kind of exposure in a deficiency payment until we solve our marketing problems, and that is the dichotomy, the tradeoff there.

We view that as constructive. We, in fact, are looking at these alternatives now and hopefully by June of this year we are going to be able to say what kind of a farm program we would like to have.

Senator BOSCHWITZ. Well, that would be valuable if you would let us know, and not only let us know through your organization, but let some of your members approach us directly.

There is no Senator more interested in wheat than the Senator from Montana, and not only should you let us know through your organization and your local representation, which is certainly very good, but also you should let us know through our constituents.

It is good for them, because we do not have winter wheat, really, and maybe our considerations are different than others.

Senator, I am rapidly running out of time. I do not believe I have listened to the United Egg Producers testify before. After this, we have one more witness, the president of CARE. Would you have time to stay? I need to be somewhere at 12:30.

Senator MELCHER. I do, too, but I am going to stay because we need to hear him.

Senator BOSCHWITZ. Yes, fine.

Then, Cathy, if you would proceed, I would appreciate it.

Ms. MCCHAREN. Yes, thank you. Did you get a copy of the statement?

Senator BOSCHWITZ. I am not sure; I will poke around here.

Ms. MCCHAREN. We had a little problem getting copies this morning. The xerox machine decided page 4 was not important.

Senator BOSCHWITZ. All right.

Ms. MCCHAREN. I would be pleased to summarize very briefly.

Senator BOSCHWITZ. Thank you.

STATEMENT OF CATHY L. McCHAREN, DIRECTOR, GOVERNMENT RELATIONS, UNITED EGG PRODUCERS

Ms. MCCHAREN. I am speaking on behalf of our members, who are egg producers in all States of the United States. We represent about 60 percent of the egg production; we are a cooperative.[1]

I would like to just briefly relate to you what we used to call the great American success story in developing an export market, but it is basically the unsuccessful story of trying to be a dependable, reliable supplier of a high-quality product provided at fair-market value.

We are not subsidized and, until very recently, did not get any Government assistance in developing these export markets. We thought we could do it by providing a quality product and competing in the free market.

Our costs are low; we are highly efficient. Even with the additional transportation costs, we thought we could compete with anyone in the world for the markets that were out there. So, in 1977, UEP became involved in exporting eggs on behalf of our egg producer members, taking care of buyer negotiations, loading the ships, taking care of credit and financial guarantees.

We provided an opportunity for the small and large egg producer to get involved in exporting, an opportunity that they may not have taken otherwise.

In 1977 the total U.S. exports of shell eggs increased considerably and continued to increase over the years. We were, in 1981, exporting about 2 percent of our total production, and UEP's contribution in getting together an export order, getting it on the ships and getting it over there represented 55 percent of all the fresh shell eggs exported.

The benefit of this sale of export products was very obvious to our industry. We had greater income; there were more jobs in the egg industry. We had made a small contribution to the balance of trade. We were able to smooth out some of the ups and downs of our own market by being able to remove some surplus product in-

[1] See p. 72 for the prepared statement of Ms. McCharen.

stead of having to shrink our production to deal with domestic demand.

1982 was an entirely different story. Our egg exports were cut in half.

Senator BOSCHWITZ. What is a case?

Ms. MCCHAREN. A case is 30 dozen.

In 1983, we had almost no exports of shell eggs.

Senator BOSCHWITZ. No exports?

Ms. MCCHAREN. Almost; it was insignificant.

Senator BOSCHWITZ. A virtual standstill?

Ms. MCCHAREN. A virtual standstill. Unfortunately, since we do not have a marketing department anymore, I could not get the total figures.

Senator BOSCHWITZ. In other words, you say that in 1982 it was cut in half to 1½ million cases.

Ms. MCCHAREN. Yes.

Senator BOSCHWITZ. Then in 1983 exports of shell eggs were at a virtual standstill. That means that you did not export what you did the year before, but you exported nothing.

Ms. MCCHAREN. We exported some in 1983, but we felt it extremely insignificant; in fact, it was less than 1977. But as I said, we do not have those figures. We used to have someone who had them at their fingertips all the time.

Senator BOSCHWITZ. 1977 was 1 million cases?

Ms. MCCHAREN. Yes; about 1 million, and we know it was less than that. This year, we have not seen any movement at all for different reasons, but in 1983 we still had a very competitively priced product and we were still significantly surplus.

We feel that there are a lot of reasons for it, but it was mainly due to unfair trade practices employed by Brazil, France, Holland, and other members of the European Community. They set out to take a market by the use of subsidies, and that cut us out of that market completely.

Now, the economic effect was rather devastating on the egg industry. We had a vehicle where we could help stabilize the normal fluctuations of supply, demand and price. We are a very free-market oriented industry in a non-free-market reality, either in the world or in this Nation. Although we tend to think we are very free market, it does not always work out that way.

UEP sometimes helped out a little bit with removing this surplus, but also increased producer prices a little bit; at least producers would not lose quite as much money as they would have if we had not been able to export.

So when you lose this market suddenly, that kind of economic effect is absolutely disastrous. I have some figures in here about the national income from the sale of eggs. Obviously, when exports drop, that income drops; when exports increased, that income increased. It was not only because we sold more products; it was because it also strengthened the domestic market as well.

We found that effect in 1983 was disastrous. Producers were selling eggs at about 36.5 cents per dozen. That is nest run; that does not include cartoning.

Senator BOSCHWITZ. What did you call it, nest——

Ms. McCHAREN. Nest run. They have not been processed at all; they just came out of the hen. But that was 36.5 cents a dozen, compared to 64 cents a dozen the year before, which is a 44-percent decrease.

Now, perhaps UEP was wrong, but as a cooperative we continued to hold out hope to our members that we could get these markets back. We maintained our export department until February of last year. We continued to respond to inquiries and tenders from foreign buyers. We continued to lobby Congress and the administration for assistance either through export PIK, which we thought was a fantastic idea, but never materialized for poulty or eggs; blended credit, which they did use; or direct export assistance.

We finally realized the futility of our efforts for the immediate future; that nothing really could be done in time to help us with the devastating crisis that we were experiencing last spring.

USDA and members of this committee and members of the House Agriculture Committee have all been very sympathetic. They have been very helpful in promoting ideas, programs and legislation that might address this problem.

It is a complex issue. We understand the administration's diplomatic preference in working through the GATT, and we were told "let us wait until this or that meeting" and "let us not upset the European Community," and "we will do something, but not quite right now."

UEP has given up; we gave up last year. We decided that we were not doing our producers a service by continuing to hold out hope that through Government assistance, we could get those markets back in time for them to survive.

We are frustrated. Unfortunately, we are not going to be able to benefit from some of the things that your bill and Senator Helms' bill are going to provide, if they do pass; at least not in the near future.

Again, I go through in my testimony and give you some examples of the kinds of things we suggested. They did not materialize; they did not work. The egg industry has made our adjustments now. To make an adjustment of the magnitude we needed, we lost approximately one-third of the individuals and companies involved in the egg business.

We got about a 2- or 3-percent reduction in production. So what happens when you make this kind of fast adjustment is you are losing a lot of people that are involved in the business.

Senator BOSCHWITZ. These 3 million cartons amounted to approximately 3 percent of the business?

Ms. McCHAREN. Yes. Two percent went into export and we were in a slight surplus situation; we needed to make adjustments anyway. So we have made the adjustment through the normal actions of the market now to about 3 percent less than we were.

Senator BOSCHWITZ. Right now, of course, the market is very high because of the Avian flu. How long will that take to straighten itself out, as a matter of interest, would you say?

Ms. McCHAREN. Well, it depends on the restraint of the egg industry as a whole. It is very possible that they can get production in very quickly and we will supply our domestic needs, and more than supply them, within a year. But if there is some restraint and

if the situation is cleared up in Pennsylvania very quickly to where those producers can get back into business, we may not overcorrect quite as badly.

Senator BOSCHWITZ. Senator, I must leave.

I appreciate it and thank you for coming. I apologize to gentleman from CARE.

[Senator Melcher assumed the Chair.]

Senator MELCHER. Cathy, I think the egg industry has been suffering in these last several years from the lack of an export policy.

Ms. MCCHAREN. I would have to agree.

Senator MELCHER. Mr. Pryor said, "I will be damned if I know what it is." I can echo that. I will be damned if I know what it is, Mr. Pryor, and nobody does. The most profound statement I ever heard from Bob Bergland, the former Secretary of Agriculture—and Bob and I go back to the time when he decided to run for the second time, which was successful, and then he was on the Agriculture Committee and we sat quite closely together in the House.

So I have known during his time here on the Hill in the House of Representatives. I saw a lot less of him when he was Secretary of Agriculture, but I saw him from time to time and visited with him.

The most profound statement I ever heard him make was a few months ago when I asked him, "Well, what is your solution, Bob?" "You have been out for a while and have had all the advantages of perspective now of looking backwards; what should be done?"

And he said, "I have come to a conclusion that I guess was floating around in front of us all for years, but I am now firmly of the opinion that there is only one way to straighten out agriculture in the United States, and that is to have an export policy, and that export policy has to be important enough to be a policy enunciated by the President of the United States and cannot be parceled out as piecemeal, the Department of Agricultural saying one thing, the Department of State saying another thing, the Office of Management and Budget in between everything. It has to be a policy that is a part of a President's policy and has to have the attention of the President of the United States ongoing."

Bob was not making a political statement because there certainly was not any Carter administration export policy. There was not a Ford administration export policy, as there was not a Nixon export policy. There was not a Johnson or Kennedy or Eisenhower export policy.

There has never been an export policy in the United States on agricultural products, and it is crazy. We have an export policy on a lot of other things, but we do not have one on agriculture, and that is what we are strongest in and that is where our long suit is and we continue to handicap it. All producers in this country, unfortunately, are victims of that.

Ms. MCCHAREN. We would totally agree with that and we feel that present, past or future administrations have got to have a commitment to promoting U.S. agricultural exports and dealing with the unfair trade practices one way or another.

I applaud Deputy Secretary Lyng's desire to get our trading partners or our competitors to a free market, but I am not sure that is ever going to happen. We would like it, but it has not happened so far.

Senator MELCHER. No, it is not going to happen. We cannot change the policies of other countries. We can talk about GATT and what it does, which is precious little. It has never been used to our advantage since I have been watching it in this treaty that we are in now or the one preceding it.

We cannot dictate to other countries what they are going to do on their export policy. We have to adapt our export policy from day to day, week to week, month to month, just as we adapt our foreign policy or our military export policy of armaments.

I do not know why we can do that so easily through Congress—and I am just speaking traditionally; we do a lot of things very easily around here, but when we get to agriculture it seems like we are not only a day late and a dollar short, but we are not even considered seriously.

That has to change. Agriculture is more important to the economy of this country than anything else, and Congress ought to realize it. The administration, whoever the President is, ought to have it as a policy.

I can say that in this Presidential campaign that is going on right now, there was not one question that I saw the media address to the President on agricultural policy of any type last night in that half-hour scenario of a press conference. There is not much said on the campaign trail about agriculture.

It is true enough that the President went to Iowa. I do not know if he said anything about agriculture when he was there or not, but if he thinks those people vote out there on other matters before they vote on agriculture, it is a different Iowa than I know, and I was born there.

The leading candidate for the Democrats says, "I know where Iowa is." What does that tell me? It does not say anything to me. There is nothing going on now, and that vacuum should be filled by Congress.

Ms. MCCHAREN. I think that Congress has always shown its interest in agriculture. I do hope that it can fill a vacuum in defining agricultural foreign policy.

Senator MELCHER. Yes. I think it is clear we are going to have to export, and we have known that for wheat for a generation, in order to survive. We are certainly going to have to export. I guess we know it now in milk; if we did not know it before and thought we could balance out dairy production in the United States with domestic needs, we must be disabused of that idea now. We continually have a surplus.

I do not know where you fit in on eggs, but you had better look at section 416; as an industry, you had better look at section 416. If you are going to be in a continual position of surplus over domestic needs, I would advise every commodity group to look at section 416.

Ms. MCCHAREN. If we had access to an export market which we could be competitive in and not have to deal with the effect of subsidies from some of these countries that employ direct subsidies, we could remove our occasional surpluses. We are a very adaptable industry.

Senator MELCHER. Cathy, we are not going to dictate what these other countries do; we will never be successful at it. Let me point that out by the experience of wheat by using Public Law 480—and

I think now we should move into section 416. I think the events have caught up with us on Public Law 480.

But by using Public Law 480, wheat has developed customers around the world for American wheat, and you may have to do the same with eggs. This is where it is so important to have the President, whoever he is, enunciating our export policy because I do not think you can say, well, we have got some extra eggs now; why do you not use them in Iraq or some other country?

You almost have to get them aware of the product and the value of the nutrition of the product and where it fits into their diet before you can really begin to deal with them on a commercial basis. That is where Government has a role and that is exactly what Bob Bergland was saying. Until that role is established at the highest level, you will not find too much done; you just flounder, and that is exactly what we are doing now.

Mr. PRYOR. Perhaps you need to know that I just came from Salt Lake City, working with the Governor of your State, trying to put together a vehicle to talk about the image of agriculture.

The image of agriculture is key to the priority that ag is going to get on the national scene, and we certainly need to work on that. I see that as one of our key needs that agriculture needs to really pitch in and work at.

We keep complaining that we do not get any attention, and that is because we do not work on projecting our image. We are just nice, comfortable Joe Farmer down the road. The groceries shelves are always full; why do we worry about them?

We have got to project what our benefits are to the customer and what we have to deliver for their betterment. Certainly, we can do that in areas of marketing opportunities. We see that as a real plus to the balance of payments, lower taxes, the whole ball of wax, and we need to really work on that.

Senator MELCHER. I am glad you are active in that, Earl, and you are absolutely correct.

Thank you all very much. We want to call up the last witness, Wallace Campbell, president of CARE, representing the U.S. Overseas Cooperative Development Committee.

Mr. Campbell, you just happen to be last. I am going to accept your written testimony as if it were read and I am going to ask you to comment on the relationship of Public Law 480 with section 416 and where you think we ought to go.

STATEMENT OF WALLACE J. CAMPBELL, PRESIDENT, COOPERATIVE FOR AMERICAN RELIEF EVERYWHERE [CARE], AND REPRESENTING THE U.S. OVERSEAS COOPERATIVE DEVELOPMENT COMMITTEE

Mr. CAMPBELL. Thank you very much, Senator.[1] We are very pleased to have this opportunity to appear before the committee. Perhaps someday the last shall be first and the first shall be last.

Senator MELCHER. I hope so.

Mr. CAMPBELL. I am waiting for that day to come.

[1] See p. 86 for the prepared statement of Mr. Campbell.

I would like to pick up on several things. The full text of the statement will be in the record. I want to point out first the important use of our tremendous agricultural surpluses. We used to call them surpluses when Public Law 480 was adopted in 1954, and I was here when that was done.

Public Law 480 has not been fully understood by many of the Members of the Senate and the House. I served on the Carlucci Commission for the last 7 months and many of my colleagues on the Carlucci Commission had no idea what Public Law 480 was about. Only a few members of the commission understood its full implications.

We have in our hands here in our food surpluses—a demonstration of the tremendous productivity of America—one of the greatest forces that we can use in world political and philosophical development.

As one of our friends pointed out earlier, Quadafi does not have any food to use in Africa. The Soviet Union does not have any food to use in Africa. We have a tremendous opportunity to use American abundance to meet this crisis in Africa. Not only can we feed the people, but we can begin to pull them back into the democratic orbit.

We are not making adequate use of the tremendous resources that are available to us. One of the very important features of "monetization" of food under section 416, and we hope under Public Law 480, is to use food to move food. This is not generally understood.

We have these tremendous surpluses. One of the reasons why we are not using as much of it as we should or could is that the costs of getting the food to the people who need it is either to raise the money privately or get it from the Treasury or by the sale for local currency some of the food.

Using this food, monetizing it, to secure the local currency to move the food out to the places where the people need it gives us an expandable part of our outreach program that we have never used effectively.

Officials in the administration often say that the private, voluntary agencies cannot do much more. We are doing a tremendous amount now, but there are great things that we can do if we have adequate foodstuffs and the authorization to sell part of those foodstuffs to pay the costs of moving it out to the people where they are starving.

Our executive director of CARE just returned from Mozambique this last weekend. There is not only a long drought, but also recent floods, a tornado and inadequate government facilities to meet the crisis.

CARE has been asked to handle all of the foodstuffs coming into Mozambique to meet this crisis of starvation of thousands and thousands of people. CARE has a team there now; the food is at the ports; we are starting distribution.

Under an agreement with the Government of Mozambique, CARE personnel have the right to go anywhere we want, any time we want, to supervise, control and monitor distribution of food so that we know it is being used to meet the greatest need. We will have support there for some local internal transport. We will have

the right to freedom of action that we have in any other country where CARE has been working in the last 38 years.

The government agreed to this. CARE will handle the incoming distribution of food not only from USDA and AID, but also from The Netherlands, from Germany, from Norway and other countries.

So we are better able now to meet the food crisis in Mozambique. CARE has teams in four other African countries in which we are not yet operating. We are serving in 10 other African countries south of the Sahara at the moment.

CARE and other private voluntary organizations are able to move our abundance of food to meet this crisis. The crisis will not be over in a year or two. This has been an endemic situation. There will be a food shortage in Africa south of the Sahara for 5, maybe 10 more years.

As we see it, we are going to have an abundance of food here that we can use in this situation; but it has to be used properly to see that we do not discourage local agriculture. We need to see that it does not destroy markets in countries. We need to see that the food is used for the highest nutritional use.

So a voluntary agency, such as CARE, Catholic Relief Services, Church World Service, the Lutherans and the others can do things in countries overseas that Government representatives cannot do because if we send a Government official in to handle internal distribution, it is looked on as impinging on sovereignty. But if one of the voluntary organizations goes in, they can do the job that needs to be done.

Speaking of 416, I hope that we will start to use these commodities the way they could be used. You mentioned Mexico, for example.

We have a team in Mexico ready to operate. We had an agreement from AID that we could monetize part of the commodities in order to handle our distribution. Somebody in Agriculture decided that it was not legal to sell for local currency commodities that we were not able to sell for local currency in the United States.

There needs to be a policy determination. The Congress needs to indicate to Agriculture that sale or barter of dairy products for local currency is the policy and the program of the United States. The CARE program in Mexico would use about 3,100 local clinics, already established, that are taking care of preschoolchildren and other needs. The clinics would be the base for our institutional distribution.

This is ready to go, but only a determination by the counsel of the Department of Agriculture or by the Secretary will make it possible to move. If the Department decides that this is the policy of the U.S. Government, then we could move on Mexico.

But at the moment we are stymied and there are thousands of malnourished children in Mexico, and we have this tremendous abundance not only of wheat, but of dairy products and other foods that we should be using.

A letter to the Congress and the administration from the wheat growers, millers, commodity groups, and the agricultural cooperatives, calls for a three-point program:

No. 1, an immediate supplemental appropriation for Public Law 480 and section 416. No. 2 is for a larger appropriation as well as a supplemental appropriation for the use of agricultural products in international programs.

No. 3 is to free part of the emergency wheat reserve so that we can make immediate use of the tremendous amount of food that is available in that reserve. As we understand it, the wheat reserve was set up to meet emergencies. It has never been used since it was set up.

If there is an emergency anywhere, anytime, we have it now in the southern part of Africa where there are literally thousands of people starving because of lack of adequate food. This is a real emergency.

We plead with whoever needs to make that decision to decide that this is proper use of that wheat reserve. There will be tremendous amounts of wheat available this fall and next fall to rebuild that wheat reserve. But we need to pull food out of that wheat reserve now to meet these emergency situations.

Senator MELCHER. Well, Mr. Campbell, I think the circumstances of many of the countries in Africa indeed do meet the criteria envisioned in the act when the wheat reserve was set up. It is a true emergency; I agree with you.

I had breakfast with Ron Burkhardt, your representative in Mexico City, this past Sunday, and so I know something of CARE's application and I will try to assist in getting it approved through this bureaucratic maze here in Washington, and I applaud you for it.

Perhaps we have reached a turning point in Mexico. I have a word of caution about this word "starvation." It probably is not appropriate for the situation in Mexico. "Hunger" is an appropriate word. I used that word Sunday morning, the same time I was talking to Ron Burkhardt, in a conversation with the agricultural counsel for the department of agriculture in Mexico City.

He said to me, well, there is not hunger down here; nobody is starving. I said, I am not talking about starving; I am talking about hunger in the usual sense where you are hungry. That is just literal. If you want to be specific, I am talking about malnourishment, and I am talking about the availability of corn or whatever else they have got available as not being balanced in the diet of people.

They might have plenty of calories; in some cases, I am not sure they have plenty of calories, by the way. But even if they had a sufficient number of calories, so what? The human body does not operate on calories alone; it operates on a variety of nutritional needs, and that is not always available.

At that time, there was no real word out of any Mexican Government source on what food needs there were in Mexico. Their latest pronouncement has been that they could produce all the food they need, and "what in the world are you talking to us about hungry people for? We do not have them."

I think we have had a turning point in that and I think CARE—the support or the acceptance you have had of the Mexican Government is truly remarkable because I do believe it is a turning point in your application, and it should be one that is snapped up right here in Washington as being a very significant change.

Later in that same Sunday, last Sunday, we met with the bishop who is in charge of Caritas and Catholic Relief Services functions as far as the church is concerned, the Catholic Relief Services function, Bishop Tolivero.

He said they were practically out of business since 1962, and that is a long ways back, when the Government chose to say, "You are no longer needed; your function is superfluous and we have Government agencies." Now, they were being welcomed back by the Government.

So I think we have a real turning point in Mexican Government situations under the present President. I think we should move and move very fast.

Mr. CAMPBELL. I want to be quite precise in the use of the words "starvation," "hunger," and "malnutrition." I have not used the word "starving" in Mexico, but malnutrition is rampant there.

In several of the African countries, people are actually starving to death.

Senator MELCHER. I understand that, and that fits the criteria for the wheat reserve for the release of wheat.

Mr. CAMPBELL. In Mexico, I think the opportunity is there. We need to reestablish our friendship with our closest neighbor other than Canada, and this is an opportunity to do things that we could not have done before.

Senator MELCHER. That is absolutely correct.

On the airplane coming back here, I was reading the paper that is published in Mexico City that is in English.

The University of Mexico came out with a study that was just released and this was the first I had seen news reports on it that indicated that up to 35 percent of the population was suffering from malnourishment.

Now, the University of Mexico is not exactly a Government agency, but that is a rather marked, profound change in what has been the Mexican attitude for the past several years that they were virtually self-sufficient in agriculture and all they needed to do was swap a little bit back and forth.

I think now they are saying that they really do not have enough food available at this time, and I hope they are successful in providing a better agricultural base. I have confidence that they will, but I think we are talking about long term, not short term, where half of the population, half of the 80 million Mexican people, are under the age of 15.

I think that tells us that malnourishment now means an inhibition on the potential of a large percentage of those young people for their future life.

I think that gives us the best opportunity that we have had to have an accommodation, an understanding and a building on the long term, joint trade potential with Mexico that we have had in this century.

By the way, I went down there at the invitation of the secretary of agriculture for Mexico, Horatio Garcia Agular, on this very point: How could section 416, if modified, be advantageous for our two countries?

Modifying section 416 has not just got the encouragement from CARE and CRS and other voluntary organizations, and AID; it also

has an encouragement from both Mexico and the Philippines, and I think that is significant.

Mr. CAMPBELL. We, in CARE, are noted as a humanitarian organization, but we are concerned with the whole economy—our economy as well as the economies of the countries in which we are working.

So we are devoting increasing amounts of our attention to helping people to produce food so that they can meet their needs. We do not look on our job as being a perpetual one. We want to get local food production and other production going to meet these needs.

Senator MELCHER. I thoroughly agree with you on that. I think that is my personal viewpoint and that we would be foolish in trying to make the circumstances such that a country did not develop their full potential in agriculture. That, I think, has to be part of the country's long-range goal.

Mr. CAMPBELL. The final point I would like to make is that we believe, and we can demonstrate, that the humanitarian use of this food also is good for American agriculture in moving surpluses, but it also is a market development factor.

When bulgar wheat was first introduced, we ran into problems that people would not eat wheat in rice-growing countries. But we found that bulgar wheat is an acceptable commodity, and CARE began introducing bulgar wheat. Then after it was introduced and people knew what it was about, then there was a market for the commercial sale of bulgar wheat and other wheat products.

Over the years, we have done that to help stimulate the market for American goods, and we think that this is a combined effort; not only humanitarian, but important economic factors.

Thank you very much, Mr. Chairman.

Senator MELCHER. Thank you very much, Mr. Campbell, and thank you for all of the fine work that CARE does around the world.

Mr. CAMPBELL. I appreciate that. Thank you.

Senator MELCHER. The subcommittee is adjourned.

[Whereupon, at 1:04 p.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. JESSE HELMS
A U.S. SENATOR FROM NORTH CAROLINA

I commend Senator Boschwitz for conducting today's hearing on agricultural export trade legislation.

Yesterday the U.S. Department of Agriculture forecast fiscal 1984 farm exports at $37.5 billion, unchanged from the USDA estimate of a month ago. While the value of farm exports is up from 1983, the volume is down 3 percent from last year. Farm exports have gone from a record $43.8 billion in 1981 to $39.1 billion in 1982 to $34.8 billion in 1983.

This downward trend must stop. Agricultural exports are the lifeblood of our farm economy, generating profits from farmers and creating private sector jobs for Americans.

President Reagan and Secretary Block know that farm exports are essential. Under President Reagan, USDA has extended an all-time record high amount of export credits and guarantees. USDA began the blended credit program and special sales of U.S. wheat flour and dairy products overseas. President Reagan lifted the Carter grain embargo, and negotiated a new, expanded grain agreement.

Even so, U.S. farm exports have been hit with the aftermath of the 1980 grain embargo, global surpluses, weak world economies, a strong dollar, and increased foreign competition. Predatory export subsidies from the European Economic Community have made a bad situation worse. Additional measures may be needed to counter foreign subsidies and get farm exports back on track.

American farmers simply must have a fair opportunity to compete in world markets. Beyond that, they need additional tools to go after markets in the realities of today's economic conditions.

That is what the legislation now before the Congress is designed to do.

Last year the Senate Agriculture Committee reported two bills on agricutural exports. The first was an original committee bill, S. 822--the Agricultural Export Equity and Market Expansion Act. It included the export PIK idea originally proposed by Senator Cochran and Senator Huddleston. The second, an amendment to a House-passed bill, would have held target prices at the 1983 levels and earmarked $600 million in savings for the Agricultural

Export Credit Revolving Fund. Unfortunately, it has been impossible to bring either measure before the full Senate for a vote.

In an effort to break the logjam, S. 2005 was introduced as a compromise. That legislation utilizes existing funds and surplus stocks, so it does not require any new Government expenditures.

Senator Boschwitz and others then introduced S. 2304, the Food Aid and Export Market Promotion Act. I commend the Senator for his leadership and initiative.

As Chairman of the Senate Agriculture Committee, I have placed agricultural trade as a top priority. We must stand firm for our farmers in the face of unfair trade practices.

I welcome the comments and views of our witnesses today, in the hope that we can work together for quick action by Congress.

STATEMENT OF HON. WALTER D. HUDDLESTON
A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, the outlook for agricultural exports is not bright, and there would not seem to be much hope for improvement without a renewed emphasis on export promotion programs.

It is clear the Congress and the Adminitration must do all we can to help our Nation's farmers increase sales in export markets.

It would be my hope that, as a result of today's hearing, there will be increased efforts to have agricultural export promotion legislation considered during this session of Congress. While some of the provisions of S. 2304 and S. 2005 have considerable merit, I note that the Committee reported similar legislation nearly one year ago--S. 822, the Agricultural Export Equity and Market Expansion Act of 1983.

The Senate has yet to consider S. 822 and I am concerned that legislation to promote agricultural exports may not be considered this year.

Accordingly, I urge the Administration to make full use of existing authorities to increase agricultural export sales.

Mr. Chairman, I look forward to the testimony of today's witnesses.

STATEMENT OF HON. ALAN J. DIXON
A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, any agricultural recovery will depend upon our export market, since a major share of the total U.S. agricultural production is exported. The result is that many, if not most, American farmers are economically dependent upon expanding exports. However, instead of rising, exports are declining, with disastrous impacts on the farm community.

Agricultural exports totalled almost $44 billion in 1981, but declined to less than $37 billion in 1982, and to $34.8 billion in 1983. This is the first time since 1969 that exports have declined for two consecutive years. It is estimated that our exports in 1984 could possibly reach $38 billion. This drop in our exports can be attributed to the world recession, the strength of the dollar, the debt of many potential importers, the lingering effects of the Soviet grain embargo, and the use of subsidies and import barriers by many of our international competitors.

The latest projected planting intentions released by the Department of Agriculture indicates that we can expect record plantings and record production, especially for wheat and corn. With this projected surplus, I believe, Mr. Chairman it is important that we determine what efforts need to be made to strengthen our export markets and to reverse the decline we have experienced since 1981. Not only must we determine the immediate needs, but we must determine long-term policy.

Mr. Chairman, I look forward to the testimony today and also to working with you and others of the committee on this most vital issue.

STATEMENT OF HON. LARRY PRESSLER
A U.S. SENATOR FROM SOUTH DAKOTA

Mr. Chairman, I first want to commend you for holding these hearings and for allowing me to present my views to the Subcommittee. I also want to commend the Chairman for introducing S. 2304, the Food Aid and Export Market Promotion Act, and say that I am pleased to be a cosponsor of this important legislation.

During the 1970s, farm product exports increased dramatically and were seen as the answer to our surplus grain problem. Between 1970 and 1981, agricultural exports increased from $7 billion to $44 billion. Unfortunately, since 1981, agricultural exports have declined to $34.5 billion in 1983. This decline is due to many factors, including the 1980 Soviet grain embargo, the world-wide recession, the strong American dollar, and increased competition from other nations.

As exports have declined, the farm economy has suffered. Farm income has declined and farm prices remain low. Now it is essen-

tial that both of these trends be reversed. Agricultural exports and far income must both be increased!

To boost farm exports, we must assist American farmers in competing with subsidized farmers in other nations. For example, the European Economic Community (EEC) subsidizes wheat exports at a rate of $2 per bushel and other nations offer special credit terms to make their products more attractive. The United States has used the GSM-102 Export Credit Guarantee quite effectively to develop some export markets, but additional credits are needed if our foreign markets are to be developed to their full potential. The $3 billion increase proposed in this bill would help American farmers reach their full export potential. The use of these credits could also help to reduce other farm program costs. If exports can be increased substantially, then market prices for farm products would increase and federal deficiency payments to farmers could be reduced. An increase in farm prices would also reduce the amount of grain put under government loan, thereby reducing government outlays.

Expansion of the PL-480 program would also increase future agricultural exports. In the past, the PL-480 program has been our most effective export promotion program. Eight of our eleven largest markets for farm products were originally recipients of PL-480 food aid. These nations moved from being food-aid recipients to major buyers of U.S. farm products. There are many other nations that can also make that transition.

In addition to these provisions, I urge your Committee to consider several other actions that could be taken to benefit agricultural exports.

First, we need to increase our efforts to barter our surplus agricultural commodities for products needed in the United States. For example, surplus dairy products or surplus wheat could be bartered for commodities needed to fill our nation's strategic mineral and metal reserves.

Second, we need to explore the possibility of negotiating additional long-term commodity agreements with other nations. Other grain exporting nations are using long-term agreements to effectively market their farm products. The long-term agreements that we have made have worked well and benefited farmers and all Americans.

The importance of agricultural exports to the farm economy makes it essential to boost U.S. agricultural exports this year. I urge your Committee to take early and favorable action on this legislation and move it forward for consideration by the full Senate.

In conclusion, I want to once again thank you for holding this hearing and taking these initiatives to increase agricultural exports.

STATEMENT OF DONALD M. CHARTIER, PRESIDENT OF FAR-MAR-CO, INC.

Mr. Chairman, Members of the Committee, my name is Don Chartier. I am the president of FAR-MAR-CO, a regional grain marketing cooperative that serves 300,000 farmers in seven States. FAR-MAR-CO is a subsidiary of Farmland Industries, a regional farm supply and marketing cooperative that serves the needs of more than 500,000 farmers and ranchers who live and work in 19 States in the central United States.

I want to join the other members of the National Council in expressing the support of the members of the Farmland family for Senate Bill 2304, the Food Aid and Export Market Promotion Act of 1984. The provisons of this act are most timely because of the current and continuing weakness in the exports of American grains and oilseeds. We believe that the declines in the export of American farm products in recent years is strongly related to current worldwide monetary conditions.

A number of nations that should be our best customers for grains and oilseeds are faced with significant liquidity problems. We believe these problems can be resolved, but only with moderation and patience over a period of years. It appears likely that the next few years will be a period of global financial adjustment concentrating on the consolidation of debts. World food trade would appear to be growing more slowly in this period than in the 1970's.

World economic growth also appears to be less robust than in the past decade but is predicted to improve in the late 1980's as liquidity problems diminish. The future growth rates of American farm exports will depend heavily on the monetary and fiscal policy actions taken by the United States in these next few months.

For the past three years, the United States has been losing market share in the world markets for grains and oilseeds at the same time those markets have been stagnant. To cite the segment of the market we know best, world exports of all wheats have declined from 109 million metric tonnes in the 1981/82 market year to 106 million metric tonnes in the 1983/84 market year. Projections that exports will total 108 million metric tonnes in the current market year now appear to be very optimisitic.

During these past three years, as total exports of wheat in the world were declining slightly, U.S. market share dropped from 48% during the 1981/82 market year to 41% the following year and to 38% last year.

It appears to us this loss of market share is primarily the result of the value of the American dollar against the currencies of competitor nations. A strong U.S. dollar has provided our competitors with the incentive to increase their production and undercut U.S. prices, either by subsidy programs or direct price cuts.

It is interesting to note that as it has become necessary for the world's grain and oilseed producers to adjust to reduced demand, only the United States has responded with production adjustments. It would be desirable to have the adjustment burden shared by other exporting nations. But, so far, no mechanism has been developed for accomplishing that objective.

One major factor in the decline of U.S. farm exports appears to result from fiscal and monetary policy actions. We believe that the future of food production and trade in the developing world will depend heavily on access to financing, not only for imports, but also for economic development. The nations of the developing world are our best hope for rebuilding American farm export programs. They are also the nations most critically affected by the current liquidity problems. These nations are also the most sensitive in their response to the programs put forth by developed nations and world monetary authorities seeking to correct liquidity imbalances. Finding creative ways to finance the needs of these nations will be crucial in rebuilding our farm export programs.

The Commodity Credit Corporation's GSM-102 short term credit guarantee program has proven itself to be a particularly effective approach to meeting the needs of both the American farmer and of developing nations which need American grain and oilseeds.

As a representative of the cooperative system and its farmer owners, I want the members of this committee to understand that our members clearly and wholeheartedly support expanding the GSM-102 credit authorizations to at least the level of $7 billion as recommended in this bill for fiscal year 1984.

The GSM-102 short-term credit guarantee program has been used with repeated success over the years to assist in the financing of U.S. farm products. Under the terms of the program, buyers of American farm exports have from six months to three years to complete repayment of the loans guaranteed by the program.

The effect of the program is to make available commercial financing to the exporters of U.S. farm products that would not otherwise exist.

Without such credit guarantees and the credit they make possible, some of this nation's best customers would be unable tc buy any of their grain and oilseed needs from American farmers. GSM-102 addresses the needs for credit for nations that otherwise cannot afford to purchase American farm products. These nations do not require direct food aid; they either are not qualified for or do not require the assistance of the PL 480 program. Neither do the other GSM programs meet this specific need for short-term credit. Failure to maintain GSM-102 at adequate levels will most predictable further aggravate the already serious problems we face in reducing our grain and oilseed surpluses and in correcting our significant and growing balance-of-trade problems.

The GSM-102 program is an effective program as can be demonstrated by the statistical record of the past three years.

In fiscal year 1981, the value of U.S. farm exports reached a new high of almost 44 billion dollars. GSM-102 credits totalled one and one-half billion dollars, or about 3 1/2% of export value for the year. This was a time when many of our best customers were just learning they had liquidity problems.

By fiscal year 1983, as many nations were painfully aware of their liquidity problems, our farm exports had declined to less than 35 billion dollars. Importers of our farm products increased their use of GSM-102 credits to almost five billion dollars. That was fully 14% of the value of our farm exports that year.

As one involved in marketing the grain and oilseeds produced by American farmers, I can bluntly tell you that our sales and those of others exporting American farm products would have been far less had we not had access to GSM-102 credit guarantees.

GSM-102 is one of those programs that best exemplifies what a positive role our government can play in the economic life of our nation. GSM-102 is not a hand-out. It is a program of credit guarantees. As such, we know of no record of defaults under the program. The exporting firms, such as ours, who benefit from the program, pay fees for the privilege of using it. As such, it is far more cost-effective than storing increasing surpluses of grain under loan programs.

The more than 500,000 members of local cooperatives served by Farmland and FAR-MAR-CO are very much aware of the value of this credit guarantee program.

At Farmland's Annual Meeting held in December last year, delegates representing these farmers and ranchers unanimously supported a resolution calling for expansion of the GSM-102 credit guarantees authorized in fiscal year 1984. We've attached as Exhibit 1, a copy of this resolution, along with our letter to President Reagan urging increased GSM-102 funding.

This is just one more example of how strongly our cooperative system supports the provisions of this bill. Most specifically, we support the provisions to increase fiscal year 1984 GSM-102 guarantee authorizations to at least seven billion dollars.

I wish to thank you, Mr. Chairman, for your initiative in this effort to re-establish the position of U.S. agricultural exports in the world marketplace, and the members of this committee for permitting me to discuss this most important issue with you today. I want you to know that we stand willing to assist you, the Department of Agriculture, the Administration, and the Congress in seeing this legislation passed into law quickly in its current form.

I, for one, think Wayne Boutwell, president of the National Council of Farmer Cooperatives, expressed the point succinctly when he said of this legislation, "Real growth in agricultural exports over the next decade will come from high-income developing countries. This legislation addresses the very real need of

providing more creative financing for potential customers of our U.S. agricultural products."

Thank you.

Attachment

AGRICULTURAL EXPORTS--CREDIT GUARANTEES URGENTLY NEEDED

TO EXPRESS THE CONCERN OF FARMERS AND RANCHERS WHO OWN THE FARMLAND SYSTEM OF COOPERATIVES THAT, BECAUSE OF THE DEPENDENCE OF AMERICAN AGRICULTURE ON A STRONG EXPORT PROGRAM, IT IS A MATTER OF NATIONAL URGENCY THAT THE UNITED STATES GOVERNMENT IMMEDIATELY ANNOUNCE AN EXPANDED EXPORT CREDIT GUARANTEE PROGRAM FOR FISCAL 1984.

RESOLUTION

WHEREAS, the economic well-being of American farmers and ranchers affects all sectors of the nation's economy; and

WHEREAS, declining agricultural exports result in lower farm income and increased pressures for government expenditures on domestic agricultural programs; and

WHEREAS, the government's budget deficit is not affected by the expansion of an "off-budget" credit guarantee program; and

WHEREAS, there is an erosion of U.S. market shares in declining world agricultural markets since governments in other agricultural exporting nations are aggressively taking markets away from the United States; and

WHEREAS, the Commodity Credit Corporation (CCC) credit guarantee program is an extremely important agricultural export promotion program and is used extensively by Farmland/FAR-MAR-CO and other grain exporters; and

WHEREAS, the Administration has not yet announced a credit guarantee authorization level for fiscal year 1984;

NOW THEREFORE BE IT RESOLVED, THAT THE PRESIDENT OF THE UNITED STATES CAUSE IT TO BE ANNOUNCED AT THE EARLIEST POSSIBLE DATE AN AUTHORIZATION OF AT LEAST $6 BILLION OF CCC CREDIT GUARANTEES FOR FISCAL YEAR 1984 AS A POSITIVE SIGNAL TO AMERICAN FARMERS AND FOREIGN BUYERS THAT THIS ADMINISTRATION INTENDS TO REGAIN AND STRENGTHEN OUR POSITION IN THE INTERNATIONAL AGRICULTURAL MARKETPLACE.

FARMLAND INDUSTRIES, INC.

post office box 7305/kansas city, missouri 64116

December 9, 1983

The President
The White House
Washington, D.C. 20500

Mr. President:

Farmland Industries and its member owners strongly support a demand-oriented agricultural export policy. Currently, there is no U.S. Government program which is more important to the export effort of American agricultural producers than the Commodity Credit Corporation's Credit Guarantee Program (GSM-102).

The world recession, the oil crisis, and high interest rates have created a debt problem in many countries which are major agricultural importers. As a result, agricultural importing countries are actively seeking credit from Farmland/FAR-MAR-CO and other agricultural exporters. The CCC Credit Guarantee Program makes credit available to agricultural importers by guaranteeing the exporter and the lender that they will be paid.

In fiscal 1983, Farmland/FAR-MAR-CO sold over half of its total exports under the Credit Guarantee Program. The delay in the approval of the fiscal 1984 credit guarantee program by the Administration has already hindered FAR-MAR-CO's grain exports.

Mr. President, at our Annual Meeting last week in Kansas City, delegates officially voiced unanimous support for the enclosed resolution: "Agricultural Exports--Credit Guarantees Urgently Needed." Although time was limited, over 1,000 delegates and their wives also were able to personally sign the resolution.

Mr. President, I hereby respectfully submit to you the resolution for your consideration. The 500,000 farm families who comprise the Farmland system strongly encourage positive action to achieve this urgent, worthwhile objective.

Sincerely yours,

Kenneth e Nielsen

Ken Nielsen
President
Farmland Industries, Inc.

Enclosure

STATEMENT OF CATHY L. MCCHAREN
DIRECTOR OF GOVERNMENT RELATIONS, UNITED EGG PRODUCERS

Mr. Chairman, my name is Cathy McCharen and I am Director of Government Relations for United Egg Producers. UEP is a national federation of four regional egg marketing cooperatives which represent egg producers in every state except Alaska and Hawaii. Each regional cooperative is made up of individual producers who chose to federate into a national organization. This grassroots base provides UEP with the ability to work in the interest of the commercial egg producer and collectively develop new and greater opportunities for the industry.

EGG EXPORTS: A "GREAT AMERICAN SUCCESS STORY"

An example of a new opportunity developed through industry cooperation was the UEP export program...A "Great American Success Story" which I would like to briefly relate to you. We worked very closely with USDA/FAS in developing this program years ago and believed that we could develop a market overseas by being dependable, reliable suppliers of a high quality product at fair market values.

We felt that an export market would help us relieve the occasional surplus of eggs on the domestic market and provide growth for our industry. U.S. producers are highly efficient, our costs were low, and despite transportation costs to overseas markets we knew we could compete with anyone in the world.

So in 1977 UEP became involved in exporting shell eggs on behalf of our egg producer members. Our marketing department handled all negotiations with buyers, made sure the ship was loaded, and took care of credit/financial guarantees and arrangements. We provided an opportunity for egg producers, large and small, from all regions of the country to participate in filling an export order. Even those who did not participate directly by providing product benefitted from these egg sales through better prices for domestic product.

In 1977, total U.S. exports of shell eggs increased 243 percent from the previous year from 441,700 cases of shell eggs in 1976 to 1,031,700 cases of shell eggs in 1977. In 1981, nearly 3 million cases of eggs were exported by U.S. producers, representing about two percent of total production. UEP's contributions to exports that year represented 55 percent of all fresh shell eggs exported by the U.S. The benefit of this expanded sale of export product was obvious...greater farm income, more jobs in the egg industry, and a small contribution to the balance to trade.

1982, however, was a different story. Exports of shell eggs were cut in half to approximately 1.5 million cases. In 1983, exports of shell eggs were at a virtual standstill. Why? It was not due to the value of the U.S. dollar. Rather, it was due to unfair trade practices employed by Brazil, France, and Holland which included the use of subsidies.

ECONOMIC EFFECT

Having a vehicle such as an export market available allowed the egg industry to ship eggs out of the domestic market and stabilize the normal fluctuations of supply and price. Occasionally it made for better market...higher producer prices. The effect of losing this market suddenly was significant. The total national gross income from the sale of eggs paralleled changes in export sales. In 1981 when exports increased, total national gross egg sale income also increased 11 percent over the previous year, from $3.27 billion to $3.66 billion. A significant contributing factor to the 1981 increase was the sale of U.S.-produced eggs and egg products in overseas markets. But in 1982, gross income decreased 7.2 percent to 3.4 billion, reflecting a 50 percent drop in export volume. In 1983, reality hit us hard. Without a stable export market to absorb the small but significant percent of our production, surplus market conditions caused egg prices to plummet. Producers early last year were selling eggs at 36.5 cents per dozen compared to 64 cents per dozen in the year before...a 44 percent decrease in the price producers received for their product.

As a cooperative representing egg producers, UEP continued to hold out hope to our members that we could regain these markets. We maintained our export marketing department until February last year and continued to respond to inquiries and tenders from foreign buyers. We continued to lobby Congress and the Administration for assistance in the form of an export PIK program, blended credit, or direct export assistance. We finally realized the futility of our efforts and decided that we were doing our producer members a disservice by continuing to hold out hope.

USDA/ADMINISTRATION RESPONSE

During this time USDA and the members of the Agriculture Committees in the House and Senate were sympathetic and tried to convince the State Department, the White House and others involved in foreign policy decisions to assist egg producers in regaining lost markets. Yet it became clear that little could be done. We understand that this is a complex issue and that the Administration prefers to work through the GATT and other diplomatic channels to solve this problem rather than engage in a possible trade war with the EEC. Yet, while undeclared, we are already in a trade war and in our case we have lost. We have given up, retreated to our own market. For numerous reasons well known to this committee, the GATT is not working, Section 301 petitions are not working, the "system" is not working. We have been and still are obviously frustrated.

UEP suggested several relatively inexpensive courses of action which would have allowed us to regain one market--Iraq--and which would have sent a strong signal to countries in the EEC that the U.S. could no longer be subsidized out of the export market. Iraq was specifically "taken away" from U.S. egg producers by Holland through the use of generous export subsidies. If we had been able to regain that market it would have forced Holland to utilize other markets possibly not accessible overland. In 1982

we suggested a direct subsidy of $4.00 per case on eggs to Iraq for six months...a total expenditure of $13 million which was based on previous years export volume. This plan was not accepted. Later that year we suggested a plan for low-interest loans to egg producers using CCC funds to initiate egg exports. The loans would "buy down" interest rates and help carry producer's accounts receivables on export orders which require warehouse delivery 14-30 days prior to vessel loading. Since the egg market is volatile, compensation for this period would have improved export participation. This plan also was not accepted.

When the PIK program for grain farmers was announced, we supported it even though it was likely to reduce feed grain supply and increase the price of our major cost of production--feed. We were hoping and suggested to USDA that the concept be extended to export assistance. An export PIK was used in the case of wheat flour sale to Egypt but was never used in any poultry export assistance. Blended credit became the main program USDA used and we did benefit from that in egg sales to Mexico. However, even through $230 million in blended credit was made available to Iraq for the purchase of U.S. eggs last spring, this credit assistance did not nearly approach the amount of EEC subsidy. Blended credit was worth about $1.60 per case of eggs but EEC's export subsidies amounted to at least $4.00 per case and the overall price disparity was about $7.00 per case. We lost that order to a supplier from the EEC. Another tender from Iraq was lost in July when we were unable to get assistance in some form amounting to $3.50 per case.

Mr. Chairman, the U.S. egg industry had to drastically cut production to get into the profitable position we are now in. That was not an easy thing to do. It meant approximately one third of the individual companies involved in the egg business over the last two to three years. We would have preferred to increase demand overseas instead of decreasing domestic supply.

I must in all fairness emphasize that USDA was sensitive to our plight and did help ease the economic burden and start us on the way to recovery through the purchase of nearly $30 million worth of dried egg mix which was roughly equivalent to 700,000 cases of eggs.

This experience has taught us a painful lesson; that just being a dependable, reliable supplier to overseas markets is not enough to develop and maintain an egg industry cooperative export program. Without the determination of the present, past or future Administration to rid itself of these unfair trade practices, UEP will not make ourselves and our producer members vulnerable again as we did during this last export attempt. We can't afford to jeopardize ourselves and expose the egg industry to the economic devastation which resulted from the abrupt loss of export markets--a loss that occurred through no fault of this nation's egg producers.

The bills that are now under consideration, S. 2005 and S. 2304 will provide direction and clarification to the Administration on this issue. We support both measures on the principle that <u>something</u> must be done to fight the unfair trade practices employed by other countries. I only regret that egg producers will not be able to take advantage of your efforts.

STATEMENT OF WAYNE A. BOUTWELL
PRESIDENT, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. Chairman, my name is Wayne Boutwell and I am President of the National Council of Farmer Cooperatives. Appearing with me today are: Donald Chartier, President of FAR-MAR-CO, Kansas City, Missouri, Rich Pennell, Senior Vice-President, Harvest States Cooperative, St. Paul, Minnesota, and LaVern Freeh, Vice-President, Land O'Lakes, Inc., Minneapolis, Minnesota. It is indeed a pleasure for each of us to appear here today on behalf of the National Council to testify in strong support of both S. 2304, the bill you introduced along with Senators Boren, Pryor, and Jepsen, and S. 2005 introduced last year by Senator Helms. In addition, I want to thank you and the other members of the Senate Agriculture Committee for taking leadership in the area of expanding U.S. agricultural exports.

As you know, Mr. Chairman, the agricultural sector continues to face a major challenge in the area of expanding exports and enhancing farm income. A recent USDA study shows that export demand is the major source of fluctuation in farm income, going from 10% of the variability during the 1950's and 1960's to 27% in the 1970's. Our experience over the last 3 years certainly is proof that variations in farm income are directly tied to change in farm exports. In 1981, net farm income was $30.1 billion. By 1983, net farm income had fallen to approximately $23 billion, representing a 24% decline. A major reason for this drop in farm income was the decline in U.S. agricultural exports. In 1981, the gross value of the U.S. agricultural exports was $43.8 billion. By 1983, the gross value had fallen to $34.5 billion, or a 21% decline. A number of important factors have led to this dramatic decline:

Increased Foreign Production -- Since 1981/82, total U.S. grain production (wheat, feedgrains, and rice) has fallen 124 mmt or 37.4%. Our major competitors, meanwhile, have increased their grain production 14.3 mmt or 7.5%. During this same period, total U.S. grain exports have fallen 2.2% while our major competitors have increased their exports 11.3%.

The best example of this situation is wheat. Since 1981/82, the U.S. has decreased its wheat production 14% (10 mmt) while our competitors have increased their production 15% (15 mmt). Over the same period U.S. wheat exports will have fallen 21% while our major competitors will have increased 17%.

Worldwide Recession -- The depressed world economy has dampened growth in the demand for agricultural products, particularly in the high and middle income countries. As an example, during the 1970's the developed countries experienced a real economic growth rate of 4.5%, compared to just .6% in 1982 and 2.1% in 1983.

Exchange Rate Effects -- Over the past two years, the value of the dollar against other major currencies has increased by roughly 20%. However, in the case of certain currencies, such as the franc and the D-mark, the dollar has increased about 50%. USDA estimates that the increase in the dollar since 1981 has caused a loss in agricultural exports valued at $6.7 billion.

Financial/Credit Difficulties -- Many of the countries currently experiencing creditworthiness problems represent some of the U.S.'s most important customers. Entering 1984, Mexico and Brazil each were facing debts totaling $90 billion, while Poland faced a debt of $30 billion

and Venezula a $20 billion foreign debt.

Due to the creditworthiness problems faced by many LDC's normal credit flows from commercial banks to the LDC's is not occuring. In 1983, commercial lending to 21 developing countries totaled $45 billion, while these same countries faced interest payments on their foreign debts of $42 billion.

Competitors Use of Export Subsidies -- Aggressive use of agricultural export subsidies by the European Community and Brazil have led both to become major contenders for world markets. In the case of Brazil and the EC, export subsidies are used to dispose of surplus stocks.

Mr. Chairman, the factors which have led to this unprecedented decline in farm exports must be met with a series of actions aimed at (1) regaining our lost market shares; and (2) building new markets for the decade ahead. The National Council believes that the bill you introduced, S. 2304 and S. 2005, introduced by Senator Helms, will provide the Secretary with a number of new and expanded export programs which are imperative if we are to correct our current export dilemma.

I would like to take a few minutes to discuss each of these bills in more detail.

Boschwitz Bill (S. 2304)

S. 2304 contains three major provisions aimed at expanding agricultural exports by providing additional short and intermediate term credit. These provisions include: increased GSM-102 credit guarantees, expand existing intermediate credit programs and increasing the authorization under Title II of the P.L. 480 program.

As you know, the Administration, to date, has approved $4 billion in loan guarantees for fiscal year 1984. S. 2304 would increase this to $7 billion.

Last October, Secretary Block requested $8.9 billion in GSM-102 guarantees for FY'84. This request was based upon $7.5 billion in formal requests that USDA had received as of October 1, 1983, along with an additional $1.4 billion in informal requests. However, to date the Administration has been unwilling to approve any additional allocations above $4 billion.

It is important to note, Mr. Chairman, that the GSM-102 program has played a significant role over the last three years in financing U.S. agricultural exports. In FY'81 the value of U.S. agricultural exports peaked at $43.8 billion, with GSM-102 credit guarantees used during that year totaling $1.5 billion or 3.4% of the export value. By 1983, U.S. exports had declined to $34.8 billion, and the $4.7 billion in GSM-102 credit guarantees represented 13.5% of U.S. farm export values.

A major reason that the Administration has not approved additional guarantees above the $4 billion level for FY'84 is the concern that at least a portion of the additional guarantees will end up being re-scheduled or defaulted. Under these circumstances, the Commodity Credit Corporation must accept responsibility and repay the commercial lender.

Mr. Chairman, there is no doubt that additional guarantees will lead to some re-schedulings and possible defaults. However, a USDA analysis, based upon the Department's original request for $8.9 billion in guarantees for FY'84, shows that the program is indeed cost effective. The $8.9 billion credit guarantee package is estimated to require $2.6 billion in outlays over

the period FY'85-87 to cover reschedulings and write-offs. The rescheduled loans, however, are collected by the CCC over the rescheduling period with a net present cost to the CCC totaling $573 million. The savings attained in farm program costs and additional federal tax revenues net out to a present benefit of $630 million. The benefit/cost ratio when calculated equals 1.09 for the $8.9 billion package. Thus, even with the initial outlays, the program is cost effective. In addition, there is a positive effect on the U.S. agricultural sector and the general economy through the generation of employment and economic activity.

While the National Council believes that additional short term credit is essential, we also believe that the Secretary needs additional intermediate credit tools aimed at expanding agricultural exports in higher per capita income developing countries. Currently, the Secretary is quite limited in his ability to provide intermediate credit under the GSM-201 and 301 programs. In fact, since the implementation of the intermediate credit program in 1979, only two loans have been made totaling less than $20 million.

Mr. Chairman, the original purpose of the intermediate credit program was to provide the Secretary with a tool to bridge the gap between the GSM-102 and Title I of the P.L. 480 program. However, the restrictions placed on the intermediate credit program have reduced its effectiveness as a tool in expanding U.S. commodity sales to several higher per capita income developing countries like Tunisia, Morocco, Thailand, Indonesia and Turkey.

S. 2304 would overcome these restrictions in two ways. First, the existing intermediate credit program would be expanded to provide credit for financing the export of any U.S. agricultural commodity. In addition, S. 2304 would establish an intermediate credit guarantee program similar to GSM-102, but with repayment terms of 3-10 years.

The expanded intermediate credit program will allow the USDA to target funds under Title I of P.L. 480 specifically for the LDC's while at the same time, graduating many existing P.L. 480 countries to a more commercial basis.

Finally, the Boschwitz bill would increase the authorization level for Title II of P.L. 480 from $1.0 to $1.5 billion. The principal reason for this increase in Title II funding is to meet the urgent demand for food aid in central Africa.

The Food and Agriculture Organization (FAO) and the World Food Program (WFP), in a report released January 9, shows that the food crisis in Africa has seriously affected 24 countries. The FAO/WFP report states that an additional 1.5 million tons of food will be needed before the end of FY'84. On January 30, Secretary of State George Shultz announced that the Administration was requesting an additional $90 million for Title II in order to provide about 200,000 tons of food aid to central Africa.

However, the U.S. has historically provided about 60% of the food aid in emergencies, such as the current famine in central Africa. If the U.S. were to meet 60% of what the FAO/WFP report called for during the remainder of FY'84, a request of $420 million would be needed.

Helms Bill (S. 2005)

A major reason that the U.S. has faced declining farm exports over the last two years relates to the continued

use of export subsidies by a number of our competitors. A primary example of this is the European Community. EEC exports to countries outside the Community have more than doubled over the past 5 years. This dramatic growth is closely correlated with the EC's use of export subsidies. In 1976, the EEC exported $12 billion of agricultural commodities to non-EEC members, using approximately $2 billion in direct export subsidies. In 1982, the EEC exported nearly $30 billion of agricultural commodities to non-EEC members using nearly $8 billion in direct export subsidies.

The European policies of artificially high internal prices -- rather than the storage of surpluses and supply management programs such as those employed by the United States -- has produced a world market situation that is damaging to the world trading system and to the U.S. economy.

The U.S. response to the growing surpluses has been to adjust domestic farm policies and programs to operate within market forces of supply and demand. This has been done in the face of exactly the opposite policy adjustments by those nations utilizing agricultural export subsidies. U.S. farmers have demonstrated their willingness to take responsible steps to resolve the problems associated with excess supply. They have, to date, rejected the notion that we can solve our problems by dumping surpluses on the world market. They have been willing to participate in large acreage reduction programs, as we experienced in 1982 and 1983.

However, Mr. Chairman, there is a growing consensus in the U.S. that our competitors have not acted responsibly in light of these growing commodity surpluses. Over the last two years, foreign production of all grains has increased, while the U.S. has reduced its production. Many within the U.S. agricultural sector are questioning our continued use of acreage reduction programs, while our competitors continue to increase their production and use export subsidies to gain increased market shares.

The National Council strongly supports efforts to end these unfair trade practices being employed by our competitors. We believe that S. 2005, introduced by Senator Helms, contains a number of important provisions aimed at restoring equity in the world marketplace. Two of these provisions are of particular importance.

First, the Helms bill would provide authority for an export PIK program. Mr. Chairman, special credit should be given to Senators Cochran and Huddleston who originally proposed the export PIK program. Under this proposal, the Secretary of Agriculture would be authorized to provide commodities or products acquired by the Commodity Credit Corporation to U.S. exporters and users, and foreign purchasers to encourage the development, maintenance, and expansion of markets for U.S. agricultural commodities. The commodities that could be made available include wheat, feedgrains, upland cotton, rice, milk and their products, and any other agricultural commodities or products acquired by the Commodity Credit Corporation. These commodities or products would be provided at no cost.

Providing CCC agricultural commodities could serve to reduce the overall cost of U.S. commodities to foreign purchasers and thereby increase the competitiveness of U.S. products. An example of such use would be to provide commodities to offset the use of export subsidies

by competing exporting nations.

In addition, S. 2005 provides specific targeting of funds for export assistance previously authorized under the Omnibus Budget Reconciliation Act of 1982. The purpose of targeting these funds is to require the Secretary to use the $175-190 million in FY'84 and 85 for assisting those commodities which have been adversely impacted by unfair trade practices employed by our competitors. A number of commodities, including poultry products, soy products, raisins, canned fruit, and flour would be eligible for export assistance under this provision.

In summary, Mr. Chairman, the National Council believes that both the Boschwitz and Helms bills are vitally important in our efforts to restore equity in the world marketplace and to expand export sales in a number of key markets. We urge the Senate to move expeditiously in its consideration of both bills.

STATEMENT OF W. GLENN TUSSEY, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION

Mr. Chairman, Farm Bureau appreciates this opportunity to comment on S. 2304, a bill to enhance U.S. food aid and restore the competitive position of U.S. agriculture in export markets.

Farmers are distressed that exports, which broke records for 13 years in a row, fell from a record of nearly $44 billion in fiscal year 1981 to $34.8 billion in 1983. The prospects this season are for only slight improvement, perhaps to $37.5 billion. Export volume is also off from 162 million metric tons in 1981 to 144.8 million metric tons in 1983. Volume for the current fiscal year is forecast at only 140 million metric tons.

Also, U.S. farmers are losing market share in many markets of importance to them. More and more policymakers have come to realize the negative effects of U.S. farm price, income and storage policies on farm exports. These will certainly have to be changed for the future. Farmers can do something about U.S. farm policies, but they can not do much about international developments and actions by governments.

World supplies of agricultural products are large. The effective demand is not sufficient to absorb heavy supplies of corn, wheat and other commodities.

The U.S. dollar is strong in relation to many foreign currencies. This causes U.S. commodities to be less attractive than was the case when foreign currencies were stronger in relation to the dollar. This is another result of high U.S. interest rates, due to the uncertainty of fiscal and monetary polices, the decisions by foreign investors that the U.S. is a "safe haven" for foreign wealth and the rapid recovery of the U.S. economy compared to the rest of the world.

A worldwide recession which has dampened demand for U.S. agricultural products in world markets. Unemployment persists and is growing in many countries. This worldwide recession has caused hand-to-mouth buying for short term delivery and no stock building of consequence is occurring.

Past Government interferences in markets has caused trade patterns to shift. Prior to the 1980 embargo, the Soviets took 71 percent of their agricultural imports from the United States. That dropped following the embargo to 17 percent. They have shifted purchases to Argentina, Australia and Canada for grains formerly provided by U.S farmers.

The Soviets are still angry over the embargo and the pipeline decision. The political rhetoric that has prevailed between our two countries has not been conducive to more farm trade with the Soviets. We are a residual supplier to the Soviet market.

Unfair trade practices and distortions have been caused in many markets by the practice of the European Community of subsidizing their agricultural exports. The EEC has export earnings from agricultural commodities of about $26 billion annually. They achieved this by the use of export subsidies, costing the European Community about $8 billion annually. They have displaced exports of American grain, American wheat flour, American poultry and a number of other commodities through such subsidy practices.

Japan restricts entry on many agricultural commodities especially if they produce it or process it in their country. Of 27 Japanese import quotas, 22 are on agricultural commodities.

Farmers are getting impatient with the Europeans and their unfair trade practices. We are getting impatient with the Japanese protectionists. We are going to keep the pressure on our Government leaders so that they will keep the heat on the EEC and Japan. We are also going to press harder and harder for the Administration to use all authorities and means at its disposal to stimulate farm exports, which are vital to both farm income and our national economy.

Therefore, Mr. Chairman, we are pleased that S. 2304 contains provisions that would address some of the export problems which are adversely affecting farm income.

As we understand the provisions of this bill, it would:

(1) Increase CCC credit guarantees to $7 billion;

(2) Increase Title II, PL 480 levels from $1.0 billion to $1.5 billion;

(3) Expand the authority for overseas donations of CCC owned commodities under Section 416 of the Agricultural Act of 1949 (currently only dairy products can be donated under this authority);

(4) Direct the Secretary to use at least $25 million in FY 1984 and $50 million in FY 1985 for intermediate credit programs (of the $175 - $190 million of CCC funds mandated by the Budget Reconciliation Act of 1982 for FY 1983 - 1985);

(5) Provide the Secretary with flexibility to set the repayment terms and the interest rates of GSM intermediate credits;

(6) Give the Secretary authority to use CCC funds to buy down the interest rate offered by commercial lenders; and

(7) Mandate GAO to investigate existing food aid programs for evaluation purposes.

Farm Bureau has long felt that export financing is one of the better tools to enhance agricultural exports.

On October 21, 1983, Robert B. Delano, President of the American Farm Bureau Federation, sent the following letter to David Stockman, Director of the Office of Management and Budget:

October 21, 1983

Honorable David A. Stockman, Director
Office of Management and Budget
The White House
Washington, D.C. 20503

Dear Mr. Stockman:

Exports of U.S. farm commodities and products have declined by almost $10 billion during the last three years. As you know, there are a number of factors contributing to this decline; one of which is the export credit competition of the European Economic Community and other suppliers of farm commodities.

The best means available to the Administration to combat some of the export practices of the EEC is the use of CCC export credits and credit guarantees. Such credits last fiscal year amounted to over $4.5 billion and were most helpful in preventing farm exports from declining further than they did ($39.1 billion down to $34.8 billion).

Farmers prefer getting their income from the market place rather than taking production adjustments for payments in commodities or deficiency payment checks.

Therefore, Farm Bureau believes that it would be better to emphasize exports rather than production adjustments. We believe that U.S. agriculture would benefit from less emphasis on payments for not producing farm products and greater emphasis on export marketing. Therefore, we recommend that funding of the CCC Export Credit Program be substantially increased in FY 84; perhaps double that of FY 83.

Movement of more commodities into overseas markets will enable you to accomplish offsetting savings in domestic farm programs. As

you may know, we have strongly urged legislation which would freeze target prices and effect economies in the dairy program. We shall continue our efforts in the Congress to bring about these economies.

We hope, however, that the Administration will see the wisdom of substantially increasing CCC Export Credit funding to enhance exports.

Sincerely,

Robert B. Delano
President

As indicated in that letter, President Delano recommended that consideration be given to possibly doubling the funding of the CCC Export Credit Program.

This recommendation of a substantial increase in CCC Export Credit funding is in harmony with the Section 2 provision of S. 2304. Farm Bureau also supports the other Export Credit provisions as useful means to specifically address some of our export problems.

Regarding food aid, Farm Bureau worked hard to obtain the PL 480 legislation which was signed into law 30 years ago by President Eisenhower. Recently, President Delano served as a member of the President's Commission on Security and Economic Assistance, chaired by Frank Carlucci. The report of that Commission was recently issued. President Delano recommended to the Commission that the PL 480 Program be substantially increased. The final report recommends substantial increases in economic and food assistance to help meet the needs of developing countries. Farm Bureau supports the increased authorization level for Title II, PL 480, provided it is ascertained that the private voluntary organizations responsible for distribution have the capability to handle a 50 percent increase in the Program.

We also support Section 4, which would expand Section 416 of the Agricultural Act of 1949.

Regarding Section 6, which would mandate a GAO study of existing food programs, we would like to see some cost estimates before taking a position on that provision. We wonder whether there may not be existing studies that suffice. If so, it would be better to use the funds that would go into another study for increased food shipments or other program activities.

Mr. Chairman, we appreciate your consideration of Farm Bureau views as this legislation moves forward.

STATEMENT OF EARL PRYOR
PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Chairman and Members of the Subcommittee:

The National Association of Wheat Growers appreciates this opportunity to appear before you today. I am Earl Pryor, president of the National Association of Wheat Growers and a wheat farmer from Condon, Oregon. Accompanying me today is Carl Schwensen, executive vice president of the NAWG.

Mr. Chairman, it is obvious that U.S. agriculture faces serious marketing problems, and wheat growers are convinced that more emphasis must be given to export programs if we are to realize our sales potential and benefit from our productive capacity. U.S. wheat exports have declined 22 percent over the past two seasons to 1.4 billion bushels, and the value of this trade has also dropped sharply. In Fiscal Year 1982 wheat trade was $7.4 billion, in FY 1983 it fell to $5.9 billion. A number of factors are responsible for this disappointing performance, including foreign policy decisions, the continued strength of the dollar relative to other currencies, stiff foreign competition, and the disruptive trade practices of several exporting nations.

With more than 60 percent of each year's U.S. wheat crop moving into world trade, it is clear that the solution to our export marketing problem does not lie in domestic farm programs. These programs are needed to provide a "safety net" for growers as we rebuild our export trade, and they are not intended to substitute for strong trade initiatives on the part of the U.S.

Opportunities for trade expansion will not fall into our lap; they must be developed, and this will take improved programs and a level of investment which meets our goals for expanded export sales. Legislation before this subcommittee aims to provide the programs and resources necessary to strengthen U.S. farm trade. The success of these intitiatives can yield very positive results for the U.S., including increased export earnings, a much-needed improvement in our balance of trade, more domestic employment, and higher net farm income.

As I understand S. 2304, it would accomplish two goals. To expand food exports through current programs, and to provide the Secretary of Agriculture with additional authority to provide new credit arrangements to countries that will graduate from the P.L. 480 program. Both of these goals are commendable and are fully supported by the membership of NAWG.

The NAWG membership has long advocated a $500 million increase in the P.L. 480 program. P.L 480 is a major source of food assistance in the world and has proven itself over the years. Your goal to direct additional funds to food short regions and areas of malnutrition should not be denied.

Let me point out a few facts about P.L. 480 funding. Funding for the Food for Peace program has declined in 1982 dollars from an average of $2.817 billion during 1968 - 1972, to only $1.312 billion in 1983. This is a net decline of 53.5 percent. During the same time, total U.S. foreign aid declined by 16.3 percent. For the poor and hungry of the world, and for the U.S., this trend must be reversed. Farmers are not the only people advocating increased P.L. 480 funding. The recent study by the Commission on Security and Economic Assistance recommended to Secretary Charles Shultz that funding for P.L. 480 be expanded.

A Congressional Research Service study found that a $500

million increase in Food for Peace funding would increase wheat and wheat product exports by 56 million bushels. Corn, rice, cotton, vegetable oils, nonfat dry milk and other commodities would also experience greater exports. A 1983 analysis using the Michigan State University model indicated a $2 billion P.L. 480 program would increase net farm income by $400 million, reduce government storage costs by $18 million, and increase federal tax revenues by $64 million. As these number indicate, both the recipient country and U.S. benefit from additional funding of the program.

S. 2304 would also provide the Secretary with the flexibility to set interest rates and repayment terms on the intermediate credit programs. Certainly this would make the program more attractive to buyers by tailoring the sale to the specific needs of each country.

Such flexibility is critical. Often we think of competition as only providing the lowest price. But it is more. Competition means not only a good price, but being able to meet the product specifications and the financial needs of the purchaser. Through the flexibility provided in S. 2304, we can become better traders and a more concerned seller. Such a tool in the hands of the Secretary would benefit all parties concerned.

I understand that the representative of the National Council of Farmer Cooperatives will focus on the intermediate credit programs. However, let me make a few quick observations.

The intermediate credit guarantee program, and the interest buy-down provisions of the legislation certainly have merit. Often credit guarantees are misunderstood. They are not budget outlays, only assurances that the debt will be repaid. Guarantees are an effective tool to promote exports and for market development. Used wisely, this provision can open the door to provide food and fiber to nations we may otherwise turn away.

The interest buy-down is of considerable importance in todays world. With the strong dollar and high interest rates, a buy-down provision would assist countries who are willing and able buyers, but are reluctant to enter the market at this time for reasons of the high rates.

Mr. Chairman, increasing U.S. farm exports depend on the ability to sell to developing nations which cannot buy our farm products until they earn more from their exports.

Increasing the export earnings of these countries depends on the economic recovery of the developed nations and the trade barriers imposed upon the developing countries. A recent Internaitonal Monetary Fund report shows just how strong the tie is in international economic health. The report projects that for every one percent increase in aggregate GNP of the industrial countries, the export earnings of the non-oil developing countries increases by 2.5 to four percent. The report went on to say that a one percentage point declines in our interest rate would, with a year lag, reduce the flow of interest payments of these countries by roughly $4 billion.

In addition to getting the world economic house in order, we must also support an atmosphere of free trade. This means assuring the U.S. will be a reliable supplier, and that we will not interfere in the free market system by placing controls on the imports which developing countries need to generate earnings. If we ever hope to move countries from government programs to market purchasers of U.S. grain, we must allow them to earn the necessary funds in the international market place.

In this regard, I would like to comment on legislation intro-

duced by Senator Helms which is also before this Subcommittee. S. 2005 contains provisions for what is commonly called an "export PIK" program and for the increased exportation of value-added products.

It makes extremely good sense, in our judgement, to use excess supplies of wheat and other commodities which have accumulated in the U.S. to leverage increased trade in the immediate term and to develop overseas markets in the long term. Payments-in-kind to promote exports and to stimulate demand growth can have an important impact on U.S. export trade, and this concept has the benefit of utilizing resources which already exist in the form of stored commodities to facilitate expanded sales. We cannot argue that an export PIK program would operate without cost, but it is evident that outlays under this approach would be overshadowed by the savings that could be realized by avoiding future storage, interest and inventory costs directly associated with keeping surpluses off the market. As seen in last year's negotiated flour sales agreement with the Egyptian government, PIK-type programs can also produce increases in value-added product sales which translate into stronger domestic industries.

Mr. Chairman, we have appreciated the opportunity to comment on export proposals under consideration by this Subcommittee. We understand that Senator Melcher will soon be introducing a trade proposal, and we look forward to reviewing his bill. I will be pleased to respond to questions from the subcommittee at the appropriate time.

STATEMENT OF WALLACE J. CAMPBELL, PRESIDENT OF CARE AND SPOKESMAN FOR THE UNITED STATES OVERSEAS COOPERATIVE DEVELOPMENT COMMITTEE

Mr. Chairman, it is a privilege to be here this morning to present our views on the important food aid concerns which this Subcommittee is reviewing. I am Wallace J. Campbell, President of CARE. I am also representing the U.S. Overseas Cooperative Development Committee in this statement. USOCDC is a non-government committee of representatives of 19 national cooperative organizations working in overseas development. On that Committee I represent the Cooperative for American Relief Everywhere, so well-known by its initials CARE that few people know that it is a cooperative owned by 24 national non-profit organizations.

Mr. Chairman, we have a number of recommendations to make with respect to the overseas food aid provisions in S. 2304, the "Food Aid and Export Market Promotion Act" which you and your colleagues in the Agriculture Committee introduced. Before doing so, however, permit me to take a few minutes to describe the current food crisis in Africa, and to suggest what needs to be done.

The present drought in Sub-Saharan Africa is even more extensive and life threatening than the Sahelian drought in the early 1970s. Tens of thousands have already died of starvation. Senator Danforth's recent trip helped immeasurably in bringing this crisis to the attention of the President and the American public.

Now, only five months into the fiscal year, we are virtually without funding for P.L. 480 Title II emergency food aid. While we seek passage of an urgent supplemental appropriation for Food for Peace, some requests for food can now be met in a timely manner by releasing wheat under Section 302 of the Security Wheat Reserve Act of 1980. As for the size of the supplemental, based on field reports from our organizations and the UN Food and Agriculture Organization (FAO), we are convinced that much more than the $90 million requested by the Administration is required. The FAO analysis showed that 1.6 million tons of food is needed for only 24 "seriously affected" Sub-Saharan nations. This would warrant the $350 million supplemental which Congressman Weiss and others introduced in the House and would certainly justify the $150 million supplemental which you, Senator Boschwitz, introduced with Senator Danforth last week in S. 2307. Additionally, we believe, that either

through legislation or executive action, that additional funds should be made available to meet urgent non-food requirements in the region. Such funds are critical to the success of emergency relief activities.

Mr. Chairman, it is often said that it takes a crisis to bring people together. Today we have a good illustration. There is broad support - from the wheat growers and commodity interests, the millers and value-added people, from farmer cooperatives, and from humanitarian organizations such as CARE and World Vision Relief Organization for a three-point plan. Our organizations have written Congress urging: (1) An immediate supplemental appropriations for Title II...any delay by adding other items onto an appropriations bill will cause needless suffering. I am certain that there can be no program of humanitarian need with higher priority for Senator Cochran and the Appropriations Committee than to avert further starvation in Africa; (2) A much larger supplemental appropriation than the Administration is seeking. We have recommended $250 million - the difference between the Weiss bill in the House ($350 million) and the amount ($150 million) you and Senator Danforth proposed. Such funds should be made available to the Title II program of P.L. 480 until expended. Finally, (3) Use of the Wheat Reserve - regardless of the supplemental. There should be immediate use of this emergency mechanism. We now know of at least four countries (Mozambique, Somalia, Mauritania and Ethiopia) where requests for wheat are on hand, and where a disaster has been declared or acknowledged by the President. I realize that replenishment many appear to some as a problem, but the Commodity Credit Corporation expects to take ownership of over 200 million bushels of wheat (5½ million tons) from the 1983 crop by June 1984. Mr. Chairman, if the tragedy taking place in Africa is not sufficient to merit use to this surplus grain and trigger the never-used Wheat Reserve, it is difficult to imagine what would.

Let me now turn to some other important matters.

Mr. Chairman, we fully endorse the objectives in S. 2304, "The Food and Export Market Promotion Act", to strengthen U.S. exports (including food aid) and to fund a flexible intermediate credit program that takes up where P.L. 480 leaves off and further stimulates economic development in poor countries. CARE and other private organizations would be interested in exploring with AID and USDA opportunities to carry out agricultural and

infrastructural development activities under these direct credit programs. Let me turn now, however, to the food aid recommendations in S. 2304, with which CARE is primarily concerned. Provisions to amend Section 416 of the Agricultural Act of 1949, to authorize a higher Title II program level (and to have the GAO undertake a study of specific aspects of our food aid programs) are timely and valuable initiatives which we appreciate. The proposed GAO study is certainly in order, but it should not hold up the emergency programs now before us.

Amending Section 416: The provision in S. 2304 to expand Section 416, the Overseas Dairy Donation Program, to include other surplus commodities acquired by the Commodity Credit Corporation, and to permit private voluntary organizations (including cooperatives) to barter or sell these commodities, is an important principle. Over a year ago I testifed before the full Senate Agriculture Committee in support of a Section 416 amendment Senator Metzenbaum introduced which was virtually identical to the provision in this bill. We remain in complete support of these objectives.

I do believe, however, that authority for voluntary organizations to barter or sell surplus commodities for local currencies, is already firmly established under the P.L. 480 Title II program (Section 202). Further development would therefore be best served by an amendment which made Section 416 donations available as additional resources (charged to the CCC) under the already existing channels of Title II. Since our organizations are now implementing local currency sales projects under Title II, most of the regulations and procedures governing these agreements are in place or under active review. To create similar provisions under a separate Section 416 authority would be confusing. This was essentially the opinion of the late Clement Zablocki who drafted an amendment last year to the foreign aid bill, H.R. 2992, which unfortunately was never enacted. I would therefore recommend that the language of the late Chairman Zablocki be used in lieu of the wording in S. 2304 even though the objectives of both are the same. Additionally, I would recommend that the Zablocki substitute contain a final sentence authorizing the President to seek to provide a significant portion of these commodities to voluntary organizations for barter or sales projects. The purpose of this additional sentence would be to insure that the authority being granted is actually used. Mr. Chairman, I know that some people oppose

these sales projects on grounds that they disrupt commercial sales. We have found the opposite to be the case. A project in India with the Cooperative League of the USA has actually led to an increase in U.S. commercial exports of soybeans.

Raising the Title II Authorization Level to $1.5 Billion: Mr. Chairman, we appreciate your support for P.L. 480. I am mindful of the $96 million amendment you offered last year to arrest commodity tonnage declines under the program. I also believe strongly that this provision to increase the Title II authorization level from $1.0 billion to $1.5 billion in FY1985 is enormously valuable. It would set a precedent of higher support in next year's farm bill debate which we expect will lead to a four-year reauthorization of P.L. 480. Moreover, if Congress and the Administration do decide to fund the food aid recommendations in Chapter 5 of the "Report of the National Bipartisan Commission on Central America", or if we continue to have extraordinary food aid needs again next year in Sub-Saharan Africa, then the higher authorization level could prove necessary.

Unfortunately, the Administration has only requested a Title II appropriation and program level for FY1985 of $650 million. This is the same as last year. In contrast, the Title I sales program was increased 13% over the FY1984 level from $897 million to $1,021 million. I believe additional funds are also needed in FY1985 for Title II for regular programs as well as for the emergency reserve. I realize, of course, that this lies outside the jurisdiction of the Subcommittee.

Mandating a GAO Study on Food Aid: Mr. Chairman, we believe a GAO study is an excellent idea and would like to suggest five additional areas which would benefit from the GAO's scrutiny. They include a review of: (1) the development assistance needs of voluntary organizations under Title II; (2) carryover provisions of P.L. 480 appropriations; (3) the Title III "Food for Development" programs; (4) emergency response mechanisms under Title II; and (5) operating reserves of the voluntary organizations. Permit me to briefly elaborate on each.

(1) Development Assistance Needs of Voluntary Organizations. The Title II program provides food and ocean freight. The voluntary organizations meet in-country and headquarters expenses. These contributions are invaluable but more assistance is needed for our food aid programs to become even more effective.

This was one of the major findings of a year-long study of food aid policy that CARE undertook. We would be happy to give to the GAO not only our conclusions, just recently reviewed by our Board of Directors, but also the basic materials on which our study was made. More specifically, food-for-work projects require more than food if they are to successfully build the physical infrastructure (roads, bridges, grain storage facilities, etc.) for which they are intended. Similarly, reaching nutritionally vulnerable infants and mothers requires training for program staff, nutrition education, home and school gardens, and integration of food aid with other primary health care services. Activities like these are costly. One possible mechanism would be an expanded Title II Outreach Grant Program. Alternatively, "monetization" or the local currency sales under Title II could be another possible mechanism.

The PVO community is not being used to its fullest potential in meeting the needs of the less fortunate in this world. From time to time, we hear from representatives of the administration that "the voluntary organizations are doing all that they can do." Nothing could be further from the truth. The problem lies in there not being adequate appropriations of monies in order to make available additional tonnages of commodities.

(2) Carryover Provisions of P.L. 480 Appropriations. One of my recommendations on the Carlucci Commission was for multi-year programming of P.L. 480. Although this is permitted, it is seldom practiced. One of the difficulties, I suspect, is the Administrative practice of trying to spend all P.L. 480 monies by the end of each fiscal year. This is particularly inappropriate in as much as P.L. 480 appropriations are generally made available until expended, and one would expect they would be routinely carried over into the next fiscal year. Instead, there is this wasteful tendency to rush and spend quickly. In Title II the problem is further exacerbated by recent end-of-year transfers of funds into the Title I account. This has been happening despite legitimate Title II program needs. The proposal of Secretary Block and Administrator Peter McPherson to start multi-year programming would do much to ease this problem.

(3) Streamlining the Title III "Food for Development" Program. Another concern of voluntary organizations has been the inability to implement more multi-year Food for Development (Title III) project agreements. Title III waives repayment obligations under Title I for mutually agreeable rural development projects and policy reform purposes. Unfortunately, the program has become so cumbersome to

negotiate that the Administration is now using Title II emergency reserve allocations instead. Simplified and streamlined procedures are needed to get the Title III program back on track and eliminate the need for using Title II.

(4) Emergency Response Mechanism of Title II. We believe the GAO should take a look at our ability to respond adequately and quickly with food and non-food assistance in the case of extraordinary situations such as the African drought. We believe our early warnings are too frequently unheeded, and that the need to seek Title II supplemental appropriations instead of using CCC borrowing authority to make the food available needlessly slows our response even further.

(5) Operating Reserves of the Voluntary Organizations. Lastly, Mr. Chairman, I believe that the GAO should review the adequacy of the Title II operating reserves for the regular feeding programs of voluntary organizations. In past years, these reserve levels have been cut and program disruptions have followed closely upon even the slightest shipping delay.

I believe we should call upon the GAO to help us do a better job in the future in all of these areas.

Mr. Chairman, I want to thank you and the members of the Subcommittee for this opportunity to appear before you today.

STATEMENT OF DANIEL E. SHAUGHNESSY, PRESIDENT
EXPORT PROCESSING INDUSTRY COALITION

Mr. Chairman, we are pleased to testify on S. 2304 "The Food Aid and Export Market Promotion Act." I am President of the Export Processing Industry Coalition (EPIC), a coalition of organizations involved in the export of processed and value-added agricultural products. Our primary objective is to increase exports of value-added agricultural products and in so doing, realize the many benefits which accrue from such exports, including increased employment, greater personal income and improved conditions in the United States economy. It is through efforts such as S. 2304 that increased value-added agricultural exports will strengthen the United States economy. We strongly support S. 2304 and your continuing efforts to deal with the agricultural trade issues.

EPIC believes that the United States must establish a trade policy which promotes fair and equitable access to international markets and which calls upon all trading nations to reject the use of unfair trade practices to gain market access.

We agree with the provisions of S. 2304 that would use existing programs such as P.L. 480, Section 416, and export credits to expand agricultural exports. In this regard, we would also encourage you to consider

targeting a portion of these programs to achieve increased exports of value-added and high-value agricultural products. The use of existing programs in this manner could contribute to the competitiveness of the United States and serve to combat unfair trade practices. In particular, we support:

-- expansion of Section 416 of the Agricultural Act of 1949 to include other commodities.

-- designation of 60% of P.L. 480 Title II in the form of processed agricultural products.

-- targeting a certain portion of export credit programs for value-added and high-value agricultural products.

-- your call for a GAO study of the effectiveness and adequacy of United States food aid programs with particular emphasis on program operations and efforts leading to the establishment of long-term commercial markets for processed U.S. agricultural products.

We would also like to point out that two other program mechanisms which might be considered for expanded exports of agricultural products are Export-Import Bank financing and the AID Commodity Import Program. Both of these activities have the capability of increased

export financing of these products.

In summary, the Export Processing Industry Coalition applauds your efforts and those of others on this Committee to expand agricultural exports. In order to increase the United States' share of international agricultural markets it will be necessary for the Congress and Administration to adopt trade policies which call for fair and equitable opportunities for access to those markets. The United States will have to vigorously pursue this objective and combat the unfair trade practices of other countries. Efforts like your through S. 2304 will go a long way toward achieving these objectives.

STATEMENT OF SHELDON J. HAUCK, PRESIDENT

NATIONAL SOYBEAN PROCESSORS ASSOCIATION

The National Soybean Processors Association (NSPA) appreciates the opportunity to discuss its views concerning S. 2304, a bill to expand agricultural export credits.

NSPA is the trade association of America's soybean processors. Its 17 member firms operate more than 80 processing centers in every major soybean producing region of the nation. During the most recent marketing year, NSPA's members bought and processed over one-half of the nation's $12.2 billion soybean crop.

NSPA supports the enactment of S. 2304 because it is an export-oriented response to the serious problems confronting exporters of U.S. agricultural products. At a time when our industry and the entire farm economy is suffering the adverse effects of proliferating unfair trade practices and an unhealthy global economy, increased credit programs to enhance exports are vitally important.

A high and expanding volume of exports is critical to the health of the U.S. soybean processing industry. Yet, we have faced between 1973/74 and 1981/82 a drop in the U.S. share of world soybean meal exports from 78 percent to 40 percent. During the same period, the U.S. share of the world soybean oil export market declined from 70 percent to 31 percent.

Reduced export demand for U.S. soybean meal and oil immediately translates into reduced crushing margins for soybean processors. Today, U.S. soybean processors' crushing margins are rarely adequate to cover costs. As a result of this, several soybean processing plants have been forced to shut down.

The primary reason for our deteriorating export situation is that our major trading partners throughout the

world have engaged in unfair trade practices that confer sizeable benefits to local oilseed processors to the serious detriment of the U.S. industry. Currently, NSPA has ongoing trade complaints against Brazil, Argentina, Spain, Portugal, and Malaysia. Our U.S. Trade Representative is addressing these unfair trade practices in the GATT and through bilateral negotiations with the offending countries. The elimination of the various unfair trade practices employed by these competitors is essential if the United States is to return to its role as the world's primary supplier for soybean meal and oil.

While the use of unfair trade practices has been the primary cause of our slipping trade position, the problem has been compounded by a poor global economic situation. Beginning in 1980, the level of world trade began to decline substantially for the first time in the post-war period. Many importing countries began to erect protectionist trade barriers in response to their external deficits. Concurrently, many of our export competitors resorted to the use of predatory export practices, such as subsidies, to increase their share of the shrinking global market.

Due to the stagnation in the world economy, effective commercial demand for farm products began to slow drastically. Compounding this situation, nearly every producing nation in the world with the exception of the Soviet Union experienced record harvests. The result was devastating for American agriculture. Farm exports declined for the first time in a decade, government-owned stocks of basic agricultural commodities burgeoned, federal expenditures for farm income support reached the highest level ever, and, finally, the Secretary of Agriculture was forced to institute a payment-in-kind (PIK) program that caused approximately 80

million acres of farm land to be taken out of production in order to bring supply and demand back into balance. Although soybeans were not specifically included in the PIK program, the strict conservation use requirements contained in the program had the effect of reducing soybean planting by nearly 8 million acres.

By taking our land out of production, the United States effectively placed an umbrella over less efficient foreign producers, allowing them to increase their share of the world market. From this perspective, the PIK program was counterproductive to our long-term export needs.

If we are to continue to be the world's major supplier of agricultural products, we must begin to recognize the importance of an ever-expanding level of agricultural exports to our national well-being.

This means, in part, that actions must be taken to eliminate unfair trade practices so that the low cost, efficient producers get the business. In the long run, if our prices for agricultural products are competitive in the world market and if the world trading rules can be enforced to end the use of predatory export practices, efficient producers such as the U.S. soybean processing industry will obtain the export business.

Additional short-term efforts are needed, however. The U.S. government must work to expand existing agricultural markets or create new demand. Our domestic farm programs must be market-oriented. This will avoid the build-up of burdensome government-owned stocks.

Many importing countries are presently confronted with serious debt burdens. The short-term liquidity problem in the international capital markets severely restricts their ability to import. In order to ensure that these countries can obtain

the agricultural products that they require, we must be able to provide an adequate amount of credit. S. 2304 calls for an additional $3 billion in export credit guarantees and $500 million for donations under Title II of Public Law 480 for fiscal year 1984. S. 2304 also provides for a minimum level of funding for our intermediate credit programs in fiscal years 1984 and 1985. The use of credits to expand the demand base for our agricultural products, especially value-added products such as soybean meal and oil, is far preferable to production controls or costly farm programs.

NSPA believes that we will need stronger and more flexible credit tools in the 1980s if we are to serve the world agricultural markets. Export credit guarantees, intermediate credit programs and Title I and II of Public Law 480 represent export-oriented programs that will enure to the benefit of American agriculture and the national economy. Programs such as these will create more jobs, increase economic productivity and strengthen our balance of payments position. NSPA therefore supports the rapid enactment of S. 2304 so that these credits can be available as early as possible in the remainder of this marketing year.

STATEMENT OF RALPH WEEMS, PRESIDENT

AMERICAN SOYBEAN ASSOCIATION

On behalf of the nation's soybean farmers I am pleased to offer the total support of the American Soybean Association for S. 2304, legislation which would establish the Food Aid and Export Promotion Act. I ask that ASA's comments be included in the hearings scheduled before your Subcommittee on Foreign Agricultural Policy February 23.

Since over half of America's soybean production is required to be exported each year in order for U.S. soybean farmers to recognize a profit from their production, export expansion is of critical importance to U.S. soybean farmers. Whereas we enjoyed rapid export growth for soybeans and soybean products during the last decade, we are now experiencing very slow or negative growth and heavy competition in several of our key foreign markets. According to USDA statistics exports of soybeans, soybean meal, and soybean oil will decline in 1984 by 4%, 20%, and 30%, respectively.

The reasons for such a decline are numerous. First, the high value of the U.S. dollar on world currency markets has resulted in greatly expanded foreign prices for U.S. soybeans. Compared to three years ago, soybean prices are up over a third in terms of the foreign currency required by our non-U.S. customers to purchase U.S. soybeans. Since cash soybean prices are almost the same as three years ago, the only change has been a sharp escalation in the value of the dollar. Not only is the high-valued dollar making U.S. soybeans expensive abroad, but it is also allowing our competitors to gain an advantage on world markets while offering them increased incentives for expanded production.

Second, the continuing stagnation of the world economy has forced many nations to constrict their imports of soybeans and products in order to save foreign exchange. High unemployment in Europe and other nations has reduced per capita income and brought about a reduction in meat consumption. Since demand for soybeans and soybean meal is closely tied to meat consumption, the result has been a decline in demand for U.S. soybeans and soybean meal.

Finally, export growth to the developing nations of the world is limited by a lack of infrastructure in those nations for use in efficiently importing, storing, transporting, and utilizing U.S. soybeans and products. In order to exploit potential demand for soybeans and products in scores of developing nations, the U.S. will have to first assist those nations in building the offloading elevators, storage silos, feed mills, and livestock and poultry production facilities needed to efficiently use our exports. Such infrastructure is expensive and often requires sophisticated technical expertise to operate.

It is for these reasons that ASA is in total support of the Food Aid and Export Market Promotion Act. ASA believes prompt passage and implementation of S. 2304 will do much to restore demand for U.S. soybeans and products and help bring about improved profitability for U.S. soybean farmers. Our reasons for supporting S. 2304 are as follows:

Expansion of GSM-102 Credit to $7 Billion is Greatly Needed

When USDA accepted requests for GSM-102 financing at the beginning of FY 1984, over $9 billion in requests were received. However, only $4 billion in GSM-102 loan guarantee authority has thus far been approved by the Administration. ASA is aware that a large share of the $5 billion in unfunded requests for GSM-102 are for soybeans and soybean products. By requiring the Administration to approve an additional $3 billion in additional GSM-102 guarantees this fiscal year, greatly expanded demand for U.S. soybeans and products will be assured.

Expansion of P.L.-480 Title II Authority to $1.5 Billion

Expanding Title II authorization to $1.5 billion will allow future expansion of the Title II program to meet ever-increasing food needs in the poverty-stricken nations of Africa and elsewhere. Since much of the commodities exported under the Title II program consist of

soybean oil and soy-based foods, the program expansion will bring about higher demand for U.S. soybeans and soybean products.

Required Funding of an Improved Intermediate Credit Program

The legislation would allow the Secretary to offer less-than-market interest rates on intermediate-term loans and require the program to be funded at no less than $25 million in FY '84 and $50 million in FY '85. ASA believes the authority to offer lower interest rates on intermediate credits will greatly expand the utility of the GSM-301 program in assisting poor nations to build needed infrastructure for efficiently using U.S. commodities. It will allow some medium-income nations to build needed infrastructure and become long-term commercial markets. Most important, required funding of the intermediate credit program will force its implementation. Otherwise, this valuable program will continue to be inoperative.

We urge the Congress to promptly approve S. 2304 in its current form and reject amendments which could impede its prompt passage. The legislation is greatly needed to bring about export expansion and improved profits for American farmers.

THE RICE MILLERS' ASSOCIATION,
Arlington, Va., February 28, 1984.

Hon. RUDY BOSCHWITZ,
Hart Senate Office Building,
Washington, D.C.

DEAR SENATOR BOSCHWITZ: I write to share with you the views of The Rice Millers' Association, particularly in regard to the provisions contained in S. 2304, the Food Aid and Export Market Promotion Act.

The Rice Millers' Association (RMA) is the national trade association of the United States' rice milling industry. Founded in 1899, the RMA is one of the nation's oldest agricultural organizations. Membership consists of both independent rice milling companies and farmer-owned cooperative rice milling firms which mill virtually all rice produced in the United States.

The U.S. rice industry is in the state of market depression. We are a commodity that must export 65 percent of our crop. Today, U.S. rice is not competitive in the world market. World prices have gone below our loan rate. Thailand is selling good quality long grain rice at prices which are more than one hundred dollars/MT less than comparable quality U.S. rice. This past year, U.S. global market share has dropped from 24 percent to about 16 percent, while Thailand has increased its share from 22 percent to 30 percent.

Our rice mills are currently running at less than 60 percent of capacity. Continued operation at this capacity level will have an adverse effect on the long-term economic interest of millers and farmers, especially in view of the fact that about 50 percent of total milling volume is accounted for by farmer-owned cooperative mills.

Because of the U.S. non-competitive position, 1983-84 marketing year exports will be largely limited to captive markets, i.e., those very few which can afford to pay the premium for U.S. rice, and those which can be penetrated only with the assistance of U.S. government facilities, such as PL-480 and the GSM-102 credit guarantee program.

RMA fully supports the provision in S. 2304 which would mandate an increase in GSM-102 credit guarantees in FY 1984. We note the case of Iraq, which is expected to purchase approximately 400,000 MT under its current $145.0 million line of credit for purchases of U.S. rice. Without this credit assistance, Iraq would not have bought any U.S. rice at all. With the increase which you propose, funding could be available to provide Iraq with at least the total credit line for rice which it had originally requested ($160.0 million).

Your provision to increase the authorization level for Title II of PL-480 recognizes the increased needs for food assistance, particularly in Africa, and is to be commended as well as your proposed expansion of the authorization for overseas commodity donations under Section 416 of the Agricultural Act of 1979. The Commodity Credit Corporation (CCC) is expected to acquire 25 million cwt of 1983-crop rices: certainly this rice ought—like surplus dairy products—to be available for famine relief.

RMA has been encouraging the reactivation of the GSM-301 program for infrastructure development. You have our full support in your efforts to direct the USDA supply CCC funds to this program in FY 1984 and FY 1985, as yet another means of rice export promotion.

As your bill recognizes, the existing intermediate credit programs need improvement. However attractive a line of GSM-102 credit may be to a foreign market, the benefits are not always sufficient to overcome the wide differential between the price of U.S. rice and that of its competition. Your bill would improve the existing intermediate credit programs by providing the USDA Secretary with the flexibility to set repayment terms and with the option to establish an intermediate credit guarantee program.

Thank you for your efforts toward improving existing U.S. government food aid and export stimulation programs.

Sincerely,

J. STEPHEN GABBERT,
Executive Vice President.

STATEMENT OF INTERFAITH ACTION FOR ECONOMIC JUSTICE

Interfaith Action has long been a supporter of food assistance programs. Over the years we have advocated maintaining adequate funding for PL 480, and we have worked to improve its implementation, especially with regard to humanitarian and development aid purposes. We have also observed the rapid upsurge in US commer-

cial agricultural exports and their growing importance to both US farmers and developing countries. In that light, we wish to make several observations regarding S 2304, which is currently before the Committee.

EXPANSION OF SECTION 416 AUTHORITY

Section 4 of S 2304 provides for the expansion of authority under Section 416 of the Agricultural Act of 1949. All commodities owned by the Commodity Credit Corporation (CCC) would be made available at the discretion of the Agriculture Secretary for direct distribution, sale or barter through private non-profit humanitarian organizations. This program would operate along side the regular PL 480 program.

Interfaith Action believes that CCC-owned commodities can be constructively used as a supplement to current food assistance programs. In light of the deepening food crisis in Africa and elsewhere in the Third World, more food aid can be wisely used.

While we support the concept of providing increased food aid, we believe that careful planning, management, and evaluation are required to ensure judicious use. Although it is tempting to leave no channel unused for expanding agricultural exports, neither US interests nor those of Third World nations are served by "dumping" US commodities abroad.

It is thus imperative that commodities made available under Section 416 be treated as part of an expanded PL 480 program, not as a new, free-standing food aid activity.

In our view, it is highly desirable to maintain all US food aid activity under a single program, avoiding complications in the allocation process and minimizing the possibility of poor coordination of the overall US food assistance effort. PL 480, by virtue of its long history and many refinements over the years, can best serve this function. Therefore, we favor placing Section 416, commodities donated for food aid purposes clearly under PL 480 authority. This policy seems advisable to us whether or not the range of commodities included under Section 416 authority is broadened.

Despite some shortcomings, PL 480 provides the best available assurance of the proper use of food aid. An extensive administrative apparatus, with the resources and expertise to plan, manage, and evaluate food aid activities, is already in place. PL 480 also includes several safeguards designed to minimize the problems frequently associated with food aid and to help ensure that the humanitarian objectives of PL 480 are in no way undermined. These provisions include the following:

Section 109

The Administration is required to consider, prior to entering a concessional sales agreement, the extent to which the potential recipient country is undertaking measures to increase per capita food production and improve facilties for storage and distribution of agricultural commodities.

Section 111

This provision mandates that at least 75 percent of Title I commodities be allocated to the world's most-impoverished nations.

Section 112

This section prohibits the sale of Title I commodities to governments guilty of consistent patterns of human rights violations.

Section 202b

This section directs that Title II food aid, to the maximum extent feasible, be targeted toward the malnourished, and it gives priority to the poorest regions of recipient countries.

Section 401(b)

Known as the Bellmon Amendment, Section 401(b) prohibits the shipment of any PL 480 commodities to a country prior to a determination by the Agriculture Secretary that (1) adequate storage facilities are available in the recipient country to prevent spoilage or waste of the commodity and (2) that distribution of the commodities will not result in a substantial disincentive to domestic agricultural production.

Section 408c

This section requires an Administration evaluation of the effectiveness of Title II and Title III programs every five years.

Given past problems associated with US concessional food aid programs, we believe that these safeguards should apply to all US food aid shipments, including those under Section 416.

In the past, a major difficulty in placing CCC-owned commodities under PL 480 authority has been a desire to dispose of these commodities more rapidly than is possible through PL 480. From this perspective, the application of safeguards and stringent analysis of potential food aid commitments are often viewed as cumbersome. While advocating safeguards, we believe that the PL 480 allocations process should be expedited to provide more timely responses to rapidly deteriorating food situations. Past experience has demonstrated that both extremes—very rapid allocation or overly cautious allocation—are undesirable.

SALE/BARTER PROVISIONS

Section 4 of S 2304 also provides for the sale or barter of Section 416 commodities by nonprofit humanitarian organizations, as approved by the Agriculture Secretary. This authority would be in addition to that in Section 206 of PL 480 and, as we understand it, would not be subject to the same criteria as Section 206 barter/sale agreements. Section 206 allows the generation of a limited amount of foreign currency through the sale of Title II commodities, but only in the event that the recipient country is deemed to be in accordance with section 109 of PL 480 (see above); the specific uses of the generated currencies are outlined in a written agreement between the US and the recipient nation; and the agreement provides that currencies will be used to increase the effectiveness of food assistance programs in reaching the recipient countries' neediest individuals.

Interfaith Action is not persuaded that an expanded barter/sale authority is necessary. The authority in Section 206 of PL 480 is sufficient to provide needed flexibility to generate currency in situations where additional funds for commodity distribution may be necessary. In addition, we feel the language in S 2304 authorizing barter and sale by PVOs lacks clarity regarding the overall process of approval of requests and the situations in which such a program is appropriate.

While we realize that a chronic shortage of funds for commodity distribution within food aid recipient nations exists, we remain unconvinced that barter or sale of food aid commodities is the most appropriate method of funding in-country distribution. Substantial sales of Title II commodities could create problems similar to those encountered in the Title I program, and could muddle the purposes of Title II. Although a number of experiences would suggest that barter/sale arrangements may also be effective development tools, we believe the concept deserves closer scrutiny before legislative encouragement is enacted.

EXPORTS CREDITS

While we realize that export credits and credit guarantees can, in some instances, assist Third World nations to import needed food supplies, Interfaith Action is concerned about their proper use. We feel that export credit programs can be used constructively to help middle income nations to "graduate" from PL 480 programs. Thus, market continuity may be bolstered through a modest, well-planned export credit program.

However, extensive use of export credit, especially if highly subsidized, may damage Third World agricultural economies, much as concessional food aid sales programs have created problems in a number of past instances. Commercial export credit programs should not encourage Third World countries to import food at the expense of pursuing their own agricultural development. Imports of US commodities should supplement—not replace—locally produced food. Careful evaluation of market effects and consumption trends and their effects on indigenous agriculture should be considered when beginning or continuing any export credit program. Mandating expenditure of a stated amount of export credit hardly allows for a program tailored to individual country needs. At no time should the US use export credits to engage in a trade war, even in retaliatory fashion.

INCREASE IN TITLE II AUTHORIZATION

Interfaith Action welcomes increasing the current Title II standing authorization as directed in section 3 S 2304. This increase would allow Title II appropriations to accomodate the maximum forseeable future need for Title II food assistance without exceeding the legally authorized ceiling.

NATIONAL CORN GROWERS ASSOCIATION,
Washington, D.C., March 9, 1984.

Hon. RUDY BOSCHWITZ,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BOSCHWITZ: The National Corn Growers Association supports and commends your efforts to increase foreign markets for U.S. agricultural products. We support specifically S. 2304, a bill that you sponsored which would enhance U.S. food aid and develop world market for U.S. agricultural commodities.

Because of an extremely heavy schedule of activities on February 23, 1984, we were unable to appear and testify on the merits of S. 2304. Nevertheless, we would like to be on the record of your hearing on S. 2304 that the National Corn Growers Association urges the passage of S. 2304, and will provide all assistance to obtain this goal.

Sincerely,

MICHAEL L. HALL,
Washington Representative.

STATEMENT OF DR. PETER T. NELSEN, PRESIDENT, INTERNATIONAL TRADE COUNCIL

Mr. Chairman and Members of the Committee. I am Dr. Peter Nelsen, an economist and President of the International Trade Council (ITC) of which the Agricultural Trade Council has recently become a division.

We appreciate this opportunity to submit testimony for the record regarding the FY '85 Appropriations for the Foreign Agricultural Service.

The Agricultural Trade Council was organized in the mid-seventies to represent the export interests of the various segments of agriculture that was not long after the Club of Rome had announced that World Hunger would be wiped out by 1980.

During the seventies and until now dramatic progress in agricultural research and the quest of the farmer to keep up with inflation has given extraordinary increases in the productivity of U.S. agriculture.

During the same time span we have learned that world hunger is not caused by an inability to product enough food, but that it is a result of poverty and a lack of productivity wherever it exists.

The key to solving the problems of the U.S. agricultural sector is in large part the problems of helping Third World countries become productive so that they earn the foreign exchange needed to buy our food and other commodities.

We have also learned that government interferences were ineffective and counterproductive whether they were embargoes or political conditions placed upon commercial transactions. Therefore another key is to keep political constraints out of marketing efforts.

FAS marketing efforts statistically looked good when we only needed order takers to fill the overseas demand, but when competition appeared and we needed innovative marketing, we began to lose markets to our foreign competitors.

New technologies here and around the world in agricultural engineering, agronomy and animal sciences will continue the trend to out produce demand for at least the next decade and possibly through the year 2000, and unless marketing keeps up with production, many of our farmers will drown in a sea of surplus grain.

Government farm outlays are projected to reach $21 billion this year, of which a large portion will go to the PIK program which can only work for about two years and a large portion will go to acreage set aside programs.

Historically, set aside programs have never worked. Each time they were used, production went up anyway. The farmer would set aside his least productive 10 or 20% of acreage and produce the same by expending the same available resources in seed and fertilizer and irrigation on the remaining 80% as he would have on the whole farm.

We recommend that the Agricultural Department spend less on production subsidies and more on backing private enterprise world marketing initiatives—not only on the 58 cooperator groups who have until now shared the whole FAS export budget.

More should be spent on financing exports by extending credit terms that are competitive with our foreign competitors and finally less effort on politicizing commercial export activities.

Six years ago the Agricultural Trade Council sponsored a new export system now known as the International Development Institute (IDI), a non-profit export trading service originally designed to fit the parameters of the Webb-Pomeraine Act, and

now the first organization to register under the new Export Trading Company Act at the Commerce Department.

IDI is composed of an educational division that will invite academians, government and industry leaders from the 167 countries around the world. A series of twelve major overseas development technology subjects will be presented once each year at week long development conferences.

We found that the need was for more than just basic agriculture and we included all the aspects of food production distribution—agribusiness and the rural economy.

IDI has contracted for the purchase of 700 acres of land for its applied research division where the major subjects covered by scientists and researchers from the major land grant universities and idustry scientists will present the latest appropriate technology in full scale demonstration projects.

The third part of the IDI system is a year-round center called TRADEXPO U.S. Export Trade Center where large and small producers by exhibiting at TRADEXPO will have access to buyers from around the world.

IDI covers not only the 58 agricultural commodities that are part of the FAS co-operator program but all 210 commodities that are produced in the U.S. We cover not only the 69 countries where FAS has agricultural attaches, but all 167 countries.

The buyers will be able to find all their needs in one place no matter what time of the year they come to the U.S. They will be able to learn the latest technology at the conference division, see the latest systems demonstrated and then make their buying decisions with more current knowledge. After seeing the exhibits from producers that they want to do business with, they will then make their travel plans to visit the companies around the country.

For example if a buyer wants to purchase a complete poultry operation, he will be able to see a complete working unit and obtain a quote on a complete turnkey project constructed at his location with management and training if desired.

Each such sale creates a permanent market for U.S. feed grains, veterinary medicines, egg cartons, baby chicks or hatching eggs, etc.

As Third World countries develop above the subsistance level our agricultural export market will shift from primarily serial grains to processed foods as people acquire more disposable income.

The export of processed food will not only be more profitable, but will also create more rural employment. Here these producers will find TRADEXPO far more efficient as a marketing method than spending money overseas trying to cover the world market by themselves.

The Senate Small Business Committee last year performed a study of why small business was not entering the export market. An analysis of the 1,200 responses obtained indicated that 87% of the problems perceived by the companies would be solved by IDI's services if the companies participated in the TRADEXPO export center that IDI has designed.

The Congressional Research Service concluded in a report on TRADEXPO on February 15, 1983, that it "would act as a giant magnet, attracting buyers, exporters and potential exporters to Washington. Users of TRADEXPO could learn about specific products and trade related issues. They could view exhibitions, revive old contacts and initiate new ones."

IDI is designed to be totally self-funding with the net revenue from the TRADEXPO U.S. Trade Center space funding the educational and research divisions.

IDI herewith requests a $5 million matching grant or a $10 million direct loan which would be repaid within seven years and which would be matched by $450 million of matching development capital over the first five years by the participating producers.

If a line item in the FY '85 budget is not possible, appropriate committee report language would accomplish the same for this minute fraction of the agricultural budget.

TRADEXPO will generate 7,000 new jobs directly at the trade center over the first five years and has the potential of generating $20 billion in new exports over the same five years which translates into 500,000 jobs around the country.

EXECUTIVE SUMMARY

The International Development Institute (IDI) herewith requests a $5 million matching grant or a $10 million direct loan to establish a new export marketing system for agriculture, agribusiness and the basic human needs commodities which are needed in the Third World countries to improve the quality of life there and

which by overseas development will create better trading partners for the United States.

Composed of (1) an educational center where overseas buyers will learn the latest technology; (2) a demonstration center where the latest technology will be demonstrated; and (3) a permanent year-round TRADEXPO U.S. Trade Center, overseas buyers can learn, see and buy what they need in one center and then make their plans to visit the producers around the United States.

Designed to give small and medium size producers equal access with the large exporters a producer can access the entire world market and have buyers from the 167 countries visit his exhibit instead of attempting to carry his products around to each country.

TRADEXPO will give all 210 agricultural commodity groups access to the world market on an equal footing with the 58 commodities which are now supported by the FAS cooperator groups.

If a minute fraction of the monies which are earmarked for production support within the farm sector would be spent on TRADEXPO U.S. Export Center to support agricultural marketing a substantial reduction in surplus stocks can be anticipated. Also, exports of commodities and processed foods that are not now exported will find their place in the world market.

The present trade deficit of $110 billion is due in part to declining agricultural exports. The U.S. International Trade Center (TRADEXPO) and the International Development Institute (IDI) has developed a new system to expand agricultural and other basic commodities and to help small and medium size producers together with the large producers to enter or expand their overseas markets.

The results will benefit the farm sector most with rising demands and implementation of new agricultural research and better economies of scale.

Forty-seven State Governors have agreed to cooperate on the U.S. International Trade Center and the International Development Institute.

We attach a copy of the statement of Senator Huddleston that appeared in the Congressional Record [1] last month which describes the project in detail.

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[1] See pp. S. 2366 and S. 2367, Congressional Record, Mar. 6, 1984.

II

98TH CONGRESS
1ST SESSION

S. 2005

To expand markets for United States agricultural products through increased targeting of Commodity Credit Corporation export funds, expanded exports of Commodity Credit Corporation dairy products, and expanded authority for the use of Commodity Credit Corporation stocks to facilitate export sales, to emphasize the need for increased exports of processed and protein fortified agricultural products, and for other purposes.

IN THE SENATE OF THE UNITED STATES

OCTOBER 26 (legislative day, OCTOBER 24), 1983

Mr. HELMS introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To expand markets for United States agricultural products through increased targeting of Commodity Credit Corporation export funds, expanded exports of Commodity Credit Corporation dairy products, and expanded authority for the use of Commodity Credit Corporation stocks to facilitate export sales, to emphasize the need for increased exports of processed and protein fortified agricultural products, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Agricultural Export Trade Equity Act of 1983".

AGRICULTURAL EXPORT PROMOTION

SEC. 2. Section 135 of the Omnibus Budget Reconciliation Act of 1982 (7 U.S.C. 612c note) is amended by adding at the end thereof the following: "Notwithstanding the foregoing provisions, effective for each of the fiscal years ending September 30, 1984, and September 30, 1985, the funds specified in this section shall be used by the Secretary of Agriculture for export assistance only in connection with agricultural commodities and products thereof that have been adversely affected, as determined by the Secretary, by price or credit subsidies used by other countries on their agricultural exports.".

DAIRY PRODUCT EXPORTS

SEC. 3. The Secretary of Agriculture shall export not less than one hundred thousand metric tons of dairy products owned by the Commodity Credit Corporation in each of the fiscal years ending September 30, 1984, and September 30, 1985: *Provided,* That to the extent the Secretary carries out this provision through sales of dairy products, such sales shall be made at such prices as the Secretary determines appropriate but not less than the minimum prices applicable under the International Dairy Arrangement: *And provided further,* That the level of exports required under this provision shall be in addition to any donations of dairy products made under the provisions of section 416 of the Agricultural Act of 1949

and the Agricultural Trade Development and Assistance Act of 1954. Such exports shall be made through the Commodity Credit Corporation under such authority as is vested in the Secretary or the Commodity Credit Corporation under law. The Secretary shall report semiannually, through September 30, 1985, to the Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture on the volume of exports made under this section.

EXPANSION OF MARKETS FOR UNITED STATES AGRICULTURAL COMMODITIES AND PRODUCTS

SEC. 4. (a) Notwithstanding any other provision of law, the Secretary of Agriculture may formulate and carry out a program under which agricultural commodities, including but not limited to wheat, feed grains, upland cotton, rice, and milk, and products thereof acquired through price support operations by the Commodity Credit Corporation are provided to United States exporters and users and foreign purchasers at no cost to encourage the development, maintenance, and expansion of export markets for United States agricultural commodities and products thereof, including value-added or high-value agricultural products produced in the United States.

(b) In carrying out the program authorized by this section, the Secretary of Agriculture—

(1) shall take such action as may be necessary to ensure that the program provides equal treatment to domestic and foreign purchasers and users of United States agricultural commodities and products thereof in any case in which the importation of a manufactured product made, in whole or in part, from a commodity or product thereof made available for export under this section would place domestic users of the commodity or product thereof at a competitive disadvantage;

(2) shall, to the extent that agricultural commodities and products thereof are to be provided to foreign purchasers during any fiscal year, consider for participation all interested foreign purchasers, giving priority to those who have traditionally purchased United States agricultural commodities and products thereof and who continue to purchase such commodities and products thereof on an annual basis in quantities greater than the level of purchases in a previous representative period;

(3) shall ensure, insofar as possible, that any use of agricultural commodities or products thereof made available under this section be made in such manner as to encourage increased use and avoid displacing usual marketings of United States agricultural commodities and products thereof; and

(4) shall take reasonable precautions to prevent the resale or transshipment to other countries, or use for other than domestic use in the importing country, of agricultural commodities or products thereof made available under this section.

(c) If a foreign purchaser sells in the importing country agricultural commodities or products thereof received from the Secretary of Agriculture, under the authority of this section, and uses the receipts from the sale of such commodities or products thereof for the construction or rehabilitation of facilities in the importing country to improve the handling, marketing, storage, or distribution of United States agricultural commodities or products thereof in such importing country, such purchaser shall be eligible to receive supplemental distributions of agricultural commodities or products thereof under this section. Supplemental distributions under this section shall be made with such commodities or products thereof, at such intervals, and in such amounts as the Secretary determines appropriate taking into account the extent to which facility improvements have been made, the capability of the importing country to distribute or otherwise use additional commodities or products thereof, and such other factors as determined appropriate by the Secretary that are consistent with the purposes of this section.

(d) The Secretary of Agriculture shall carry out the program authorized by this section through the Commodity Credit Corporation.

(e) The Secretary of Agriculture may issue such regulations as the Secretary deems necessary to carry out this section.

(f) The authority provided in this section shall be in addition to, and not in place of, any authority granted to the Secretary of Agriculture or the Commodity Credit Corporation under any other provision of law.

VALUE-ADDED, PROCESSED, AND PROTEIN FORTIFIED PRODUCTS

SEC. 5. (a) Section 201 of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1721) is amended by adding at the end thereof the following new subsection:

"(c) In distributing agricultural commodities under this title, the President shall consider the nutritional assistance to recipients and benefits to the United States that would result from distributing such commodities in the form of processed and protein-fortified products, including processed milk and plant protein products, and shall take all feasible steps to ensure that an appropriate portion of such commodities distributed each fiscal year be in the form of processed and protein-fortified products. In selecting commodities for distribu-

tion under this title, the President shall also consider the nutritional needs of the proposed recipients of the commodities and the purposes of this title.".

(b) Subclause (B) of section 1207(a)(5) of the Agriculture and Food Act of 1981 (7 U.S.C. 1736m(a)(5)(B)) is amended to read as follows: "(B) funding an export market development program for value-added farm products and processed foods at a greater funding level than that provided during fiscal year 1983; and".

II

98TH CONGRESS
2D SESSION

S. 2304

To enhance United States food aid, restore the competitive position of the United States in agricultural export markets, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 9 (legislative day, FEBRUARY 6), 1984

Mr. BOSCHWITZ (for himself, Mr. BOREN, Mr. JEPSEN, and Mr. PRYOR) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To enhance United States food aid, restore the competitive position of the United States in agricultural export markets, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Food Aid and Export Market Promotion Act".

INCREASED COMMODITY CREDIT CORPORATION EXPORT CREDIT GUARANTEES

SEC. 2. For fiscal year 1984, the Commodity Credit Corporation shall make available credit guarantees for not

less than $7,000,000,000 in short-term credit extended to finance export sales of agricultural commodities.

INCREASE IN TITLE II AUTHORIZATION

SEC. 3. Section 204 of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1724), is amended by striking out in the first sentence "$1,000,000,000" and inserting in lieu thereof "$1,500,000,000".

EXPANDED AUTHORITY FOR THE USE OF CCC STOCKS ABROAD

SEC. 4. Section 416 of the Agricultural Act of 1949, as amended (7 U.S.C. 1431), is amended by striking out the next to last sentence and inserting in lieu thereof the following: "Such dairy products and other agricultural commodities and products thereof acquired by the Commodity Credit Corporation which the Secretary determines meet the criteria of this section, may also be donated through foreign governments and to public and nonprofit private humanitarian organizations for the sale or barter, as approved by the Secretary, and direct distribution of such commodities for the assistance of needy persons outside the United States, and the Commodity Credit Corporation may pay, with respect to commodities and products thereof so donated reprocessing, packaging, transporting, handling, and other charges, including the cost of overseas delivery. The proceeds and services real-

ized from the sale and barter of such dairy products and other commodities and products thereof by public and nonprofit private humanitarian organizations shall be used exclusively for such activities as are approved by the Secretary to facilitate providing assistance to needy people. No portion of the proceeds or services realized by sale or barter may be used by such organizations to meet their overhead expenses.".

EXPANDED AND MORE FLEXIBLE INTERMEDIATE EXPORT CREDIT SALES PROGRAMS

SEC. 5. (a) The Commodity Credit Corporation shall make available financing of not less than $25,000,000 during fiscal year 1984 for exports under clauses (B) and (C) of section 4(b)(3) of the Food for Peace Act of 1966, as amended (7 U.S.C. 1707a), and not less than $50,000,000 for such exports during fiscal year 1985.

(b) Section 4(b) of the Food for Peace Act of 1966, as amended (7 U.S.C. 1707a(b)), is amended by—

(1) striking out "financed" in paragraphs (1), (2) and (8) and inserting "financed or guaranteed" in lieu thereof;

(2) striking out "financing" in paragraphs (3), (4), and (7)(B) and inserting "financing or guarantees" in lieu thereof;

(3) inserting "or guaranteed" after "provided" in paragraph (6); and

(4) striking out "finance" in paragraph (7)(B) and inserting "finance or guarantee" in lieu thereof.

(c) Section 4(b) is further amended by revising paragraph (5)(A) to read as follows:

"(A) Repayment shall be in dollars with interest at a rate determined by the Secretary.".

REPORT ON EFFECTIVENESS OF FOOD AID

SEC. 6. Within one hundred and twenty days from the date of enactment of this Act, the General Accounting Office shall prepare and submit to Congress a report analyzing and detailing the effectiveness and adequacy of United States food aid programs.

Such report should include an analysis of—

(1) the needs of recipient countries relative to global food aid needs;

(2) the use to which recipients put the food aid once it is received;

(3) the nutritional and economic success of the programs; and

(4) the extent to which the ultimate consumer knows that the aid is coming from the United States and how this information could be provided more effectively.

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